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THE

THEORY AND PRACTICE

OF

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THE

THEORY AND PRACTICE

OF

BANKING:

WITH THE ELEMENTARY PRINCIPLES OF

Currency; Prices; Credit; and Exchanges.

BY

HENRY DUNNING MACLEOD, Esq.,

OF THE INNER TEMPLE, BARRISTER-AT-LAW; FELLOW OF THE CAMBRIDGE PHILOSOPHICAL SOCIETY.

Testimony is like the shot of a long bow, which owes its efficacy to the force of the shooter; argument is like the shot of a cross bow, equally forcible whether discharged by a giant or a dwarf.—BOYLE.

VOLUME II.

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ERRATA.

P. 148, § 50, line 2, for "ingeniously" read "ingenuously."

P. 288, § 77, line 16, for "commission" read "new committee."

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INTRODUCTION.

MONETARY SCIENCE IS AN INDUCTIVE SCIENCE, AND CAN ONLY BE TREATED IN A SATISFACTORY MANNER BY OBSERVING THE RIGID PRINCIPLES OF THE INDUCTIVE PHILOSOPHY—CAUSES WHICH DISTINGUISH MONETARY SCIENCE FROM POLITICAL INSTITUTIONS, AND RAISE IT TO THE RANK OF AN EXACT SCIENCE—FURTHER ELUCIDATION OF THE PRIMARY MEANINGS OF SOME TERMS IN MONETARY SCIENCE - CAPITAL—CREDIT—PHILOSOPHICAL REASONS FOR CONDEMNING SEVERAL OF THE PREVALENT DOCTRINES IN POLITICAL ECONOMY — UPON SOME FALSE DISTINCTIONS MADE BY SOME EMINENT WRITERS ON THE SUBJECT.

1. It has been acknowledged by the most eminent philosophical writers, from Bacon to Whewell, that political economy is to be included among the Inductive Sciences. As soon as this great truth was recognized, it followed as a necessary consequence that the only hope of treating such a subject in a successful manner, was to adhere strictly to the method which has been adopted in the sciences to which the name of Inductive is more familiarly applied. The grand problem is, therefore, to treat political economy on the most rigid principles of the Inductive Philosophy, or, in fact, to adapt the Inductive Philosophy to the discussion of political economy.

2. But no writer has hitherto attempted such a task; and, for this reason, that in order to do it successfully, it is indispensably necessary, not only to understand the spirit and genius of the Inductive Philosophy,

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but to have the minutest practical knowledge of the details of business, in order to see how the genius of the Inductive Philosophy is to be adapted to the subject.

3. Among the branches of political economy, the subject of these volumes—Monetary Science—stands far pre-eminent in importance. Nay, it would not be going too far to say, that almost all departments of political economy are branches of it.

4. Now, Monetary Science is as genuine an Inductive science as mechanics, or any other which is usually included under that title. It is capable of being treated with all the precision and certainty which have produced such an astonishing extension of the boundaries of human knowledge. And not only is it capable of being so treated, but it is the only method which can lead to a satisfactory result, and until it is done so, there is no hope of establishing it on sure, sound, and unassailable foundations.

5. The object of this work, then, is to attempt to treat Monetary Science on the most rigorous principles of the Inductive Philosophy, and to establish it on as sure and certain foundations as its kindred sciences.

In order to shew how this is to be done, we may make a few preliminary observations upon the nature and spirit of the Inductive Philosophy, and shew how its principles are strictly capable of being applied to the peculiar circumstances of Monetary Science.

6. The first object in this philosophy is, to define rigidly and accurately the objects about which it treats, to observe their natures and degrees, and to classify them accordingly. The next point is, to discover if there be any uniform laws which govern their relations towards each other, under all circumstances; and if there be any such laws, to clothe them in such a form of expression as

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shall indicate on the face of it all possible causes of a change in those relations, so that by the variations of potency of each particular cause in each separate case, the same general expression may be applicable to all classes of phenomena in the science, and to any extent.

7. Now, if this can be done, if it can be shewn that there are certain uniform laws which govern *all* the phenomena in the science, and not merely a few isolated cases, then such a science is an inductive science, and can be erected on sure, certain, and unalterable foundations, until some change takes place in the very nature of the objects it treats about.

8. Definitions, however, are not arbitrary, and it is not sufficient to adhere always to the same sense of the same word to obtain truthful results. Such results would only be *logically* true; but they would not necessarily be true to nature. It is absolutely requisite that the definitions must be true to nature. The mere *name* which may be given to the object is of secondary importance, though it is usual, and, in many cases, advantageous to have one typical of its qualities; but it is the classification of things according to their essential natures and degrees, which is the all-important requisite. It is an indispensable necessity to class things of the same nature under the same name, although they partake of the qualities of that nature with greater or less degree of power, or intensity.

9. To settle a proper nomenclature, then, is the very first and indispensable foundation of all science, and it can only be done by means of an intimate knowledge of the nature of its several objects. It is evident that so delicate a matter cannot be accomplished except by an extensive study of the subject. True and accurate

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definitions are not the arbitrary fancies of crude and immature ideas, but they are the glorious fruitage of experience and reflection, clothed in certain forms of expression, which are under the control of philosophical necessity.

10. The preceding observations contain nothing which is novel, or that will probably be disputed. We have now to approach a much deeper and more important part of our subject, that which gives Monetary Science its distinctive character as an Inductive Science, and which has never yet been investigated.

The distinctive feature which confers upon any branch of knowledge the title of an Inductive Science is, that its objects are connected by certain invariable laws. The grand business of Inductive Philosophy is to discover these laws. It is no part of true philosophy, in the first instance, to discover how they act, or why they act; all we require is, to discover that there *are* such laws, and that they act uniformly and universally. In the advancing tide of human knowledge, to which it would be rash to affix limits, the discovery of higher and loftier inductions may be reserved to future generations; but it is the only true course to commence with the lowest, and to proceed gradually and cautiously to more general ones, until, perhaps, some single general cause may be reached, of which inferior, and, seemingly unconnected departments, may be particular modifications.

11. All sciences are questions of force and motion. The grand problem in mechanics is to discover what produces or tends to produce a change in motion. Such a cause is termed a force, and the whole science of mechanics consists in developing, measuring, and expressing in certain language the results of the action of forces. Now, the grand problem in Monetary Science is to deter-

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mine what causes, or tends to cause, a change in price. And to discover a form of expression which is applicable to all cases in all places, and in all times. If such a form of expression can be attained, then Monetary Science takes rank with mechanics as an Inductive Science; if there be no such form of expression, then it does not.

12. In the physical sciences the train of connection between cause and effect has hitherto been involved in impenetrable obscurity. An ordinary person sees nothing remarkable in one billiard ball striking another, and producing motion. He never saw anything else. He says that one ball *struck* the other, and caused it to move, and would probably think it an idle inquiry to speculate further on the matter. But the highest philosophers are now of opinion, that there is nothing more obscure, or wrapped in more impenetrable mystery, than the mode by which one ball communicates motion to the other. It is absolutely certain that the one ball does NOT touch the other. The whole truth, then, lies in this—that there are certain *intervenient* principles or properties, of which we know nothing certain, with which Providence has clothed substances; so that, by and through the agency of these universal intervenient principles, the same causes uniformly produce the same effects or phenomena. And it is the universality of these intervenient principles which enables us to predict the consequences which flow from certain causes.

13. Now, Monetary Science bears the closest and most remarkable analogy to mechanics.

When we say, that if one billiard ball strikes another, it produces motion, we use a phrase which is partly inaccurate and partly elliptical. The fact correctly expressed would be thus—when a billiard ball in motion approaches within a certain distance of another, the

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action of certain natural principles is excited, which causes the other one to move in a particular direction, and with a certain velocity. Now, when we say, that scarcity of an article causes a rise in price, the expression is elliptical in precisely a similar manner. Because it is not the actual scarcity which causes the price to rise, *but the scarcity acting upon certain intervenient principles of human nature that causes the change in price.*

14. These intervenient principles may be enumerated as follows:—

1. The love of money is universal.
2. That persons will in general demand as high a price as they can for their commodities.
3. That the scarcity of an article which is sought after, will enable them to demand a higher price than usual for what they have to sell.
4. That they can discover this greater scarcity.
5. That they will use the power thus opened to them, to insist upon a higher price than usual.

These, then, seem to be the intervenient principles whose agency is called into effect by a change in the ratio of supply and demand, and which produce a change in price.

15. But we know that these principles are universally implanted in human nature. They are true of all nations, and in all times. As surely as matter gravitates to matter, so does man seek profit with insatiable desire.

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When these principles are called into action, they produce the same results in the Exchange in London—in the wildest valley of the Highlands—at Pekin—in the interior of Africa—among the rudest savages of the South Sea Islands. Man, from the highest development of civilization to the lowest form of savagery, is universally actuated by the desire for gain. It was so in the most distant ages of which we have any record equally as now, and ever will be while human nature remains what it is. Three thousand years ago, among a people who knew nothing of money, the man who made an exchange of gifts of notoriously unequal value, even with his friend, was held to be a fool, nor are the sentiments of mankind in any way different at the present day.

16. These principles, then, act with unerring certainty—they are universlly true,—human instinct is as certain, invariable, and universal in its nature as the laws of motion,—AND THAT IS THE CIRCUMSTANCE WHICH RAISES MONETARY SCIENCE TO THE RANK OF AN EXACT, OR AN INDUCTIVE SCIENCE. It is this which renders it possible to establish it upon as sure, solid, and imperishable a basis as mechanical science. Alone of all the political sciences, its phenomena may be expressed with the unerring certainty of the other laws of nature.

17. It is this universality of the principles through whose agency phenomena, or results, are produced, that essentially distinguishes political economy, and especially, its most important branch, Monetary Science, from political institutions. The former is the same yesterday, to-day, and for ever. As soon as the two first inhabitants of the earth began to traffic, political economy sprang into being. It may not have been thought of; thousands of years may have rolled away while it was still undiscovered; but yet, like the statue in the block—

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not yet called forth by the hand of the sculptor—there it was. Its laws acted with unfailing precision, while they were still undiscerned by human intelligence; just as the heavenly bodies obeyed the laws of gravitation before there was a Newton. That bad coin will drive out good coin from circulation, is an unerring law of nature. It was noted by Aristophanes at Athens,* equally as in the days of William III. in England, and other instances too numerous to mention, in all ages and countries. But political institutions are ever varying, temporary, and local. They are only suitable to certain peoples, and to certain times. Their effects depend much upon the uncontrollable caprices, prejudices, feelings, and temper of nations. The same law might produce the most opposite course of action in people of different degrees of intelligence and judgment. Consequently, .general rules in politics are to the last degree vague, uncertain, and unsatisfactory; and they are, in general, applicable only to large masses of men, where individual instances are merged in general results. But the instincts of selfishness—of individual interest, are universal—or, at least, the exceptions are so few, that they may be neglected.

18. The considerations we presented respecting definitions shew, not only that they are not arbitrary, but that their limits are not within our own control, if we would argue correctly. Whether we will, or not, things of the same nature MUST be classed under the same appellation. Thus, a controversy has arisen among writers and speakers upon Monetary Science, whether bills of exchange are to be classed as "currency," or " circulating

* Quoted in Macaulay's Hist. of England, Vol. IV., chap. xxii.

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medium," or not. Many modern authorities exclude them from that definition, and restrict the word "currency" to money, and Bank notes payable to bearer on demand. But we say, that such a definition cannot be accepted—that it is contrary to all the fundamental principles of sound philosophy, to exclude bills of exchange from the designation of "currency"—and that it is not a matter of choice, but an imperative necessity, to include them in that title.

19. The idea of excluding bills of exchange from the designation of "currency," or "circulating medium," arises, we believe, from a profound misconception of the fundamental meaning of the expression, "circulating medium." Sir Francis Baring seems to be the originator of this fallacy. He says,* "Circulation, as the word implies, must have a point or centre on which the whole can turn; and that centre, as far as relates to the Island of Great Britain, is the Bank of England, whose paper or notes represent that object for every useful or beneficial purpose." He uses the words, "circulation" and "circulating medium" as synonymous, and he has been led away by a specious conceit, into a most transparent misconception of the fundamental idea of the word. For he—and almost all modern thinkers on the subject—and more especially the framers of the Act of 1844—evidently understood the expression, "circulating medium" to mean the medium which itself circulates. It is only necessary to call attention to this flagrant error, which is the *ignis fatuus* that has led them astray. The "circulating medium" is not the medium which necessarily circulates itself, but the medium which circulates commodities. It is the circulating power of commerce—that power which

* Observations on the Establishment of the Bank of England, p. 1.

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transfers commodities from the possession of one person to another; and hence, whatever performs that duty is "circulating medium." No doubt, some of the superior forms of circulating medium also circulate themselves as well—such as money and Bank notes, and bills of exchange in a lesser degree; but it is an unquestionable fact, that the fundamental idea of the circulating medium is not the *itinerating* medium, but the power which transfers commodities, or the transferring medium. The ambiguity arises from the word "circulating" being interpreted in a *neuter* sense, whereas it is an *active* verb. Now, it is perfectly undeniable that the great transferring power of modern commerce is CREDIT, or, "Promises to pay." Credit is the great circulating power, and the idea of excluding it from the title of "circulating medium" is, to the last degree, unphilosophical.

20. The extreme length to which the advocates of the doctrine, that bills of exchange are not "currency," go, is quite sufficient, we think, to satisfy any person who can appreciate sound reasoning, of their incorrectness. Some years ago there were no private bank notes in Lancashire. The only power which there was of circulating commodities consisted of Bank of England notes and bills of exchange, at two months' date, drawn by Manchester bankers on their correspondents in London. It is stated by witnesses, that these bills of exchange outnumbered Bank of England notes at least in the proportion of ten to one; and of these, a very large part consisted of the bills of Jones Loyd and Co., of Manchester, upon Jones Loyd and Co., of London. Now, these bills performed all the functions of Bank notes; they sometimes passed through 150 hands before they matured. They then not only circulated commodities, but also, they itinerated themselves with as great facility as Bank notes. Now, Mr. Jones

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Loyd, who is the most inflexible opponent of the doctrine that bills of exchange are currency, was pressed with this case, and, of course, bound by the iron necessity of his theory, he actually denied that these bills of exchange were "currency." Now, we think that such ideas carry their refutation in the simple statement of the facts.

21. To gather together the objects which are essentially of the same nature, and to separate those which are essentially distinct, is one of the very first requisites of accurate reasoning. Nothing can be more fatal to all true conceptions of philosophy than to make essential distinctions between things which differ only in *degree*. But this is exactly the fatal error which those persons commit, who create an essential distinction between bills and Bank notes. The exact truth is, that bills have not so general a circulating power as Bank notes; but both are forms of credit, which, by the very name of the thing, denominates circulating power, or circulating medium.

22. Professor Faraday simplified and reduced to order the science of electricity, by abolishing a false and unphilosophical distinction of a nature exactly analogous to the one we are now discussing. The early electrical philosophers divided substances into the *opposing* classes of electrics and conductors—or conductors, and non-conductors. Professor Faraday shewed that this was a false opposition, and that all bodies are conductors, *but in different degrees*, from the lowest to the highest. He accordingly established this truth, and is acknowledged to have conferred the most important benefit upon electrical science by so doing.* Again, in optics, it used to be the fashion to divide substances into transparent and opaque; but it was found that there is no substance whatever

* Vide Whewell's "Philosophy of the Inductive Sciences," Vol. II., p. 412.

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which, if reduced to a proper degree of tenuity, does not exhibit some degree of transparency; consequently, a truer mode of expression abolished that distinction, and bodies are now considered to be transparent only in different degrees, from the highest to the lowest.

23. A parallel course of argument applies with irresistible force to the question of the circulating medium. To exclude bills of exchange from it is precisely one of those false distinctions which obscured and retarded the progress of the other sciences. Proceeding, then, on the same grounds of general reasoning which are admitted to be conclusive in other sciences, we say that it is an imperative necessity to call whatever power circulates commodities, the "circulating medium," whatever its symbol be—money or credit.

24. We are aware that it is the fashion of some political economists almost ostentatiously to proclaim that they repudiate any particular care in settling definitions. But it is impossible to imagine a more fatal delusion, and that is the very reason why the science of political economy presents such a mass of hopeless contradictions and confusions. This neglect of proper definitions is the opprobrium of political economy as it is treated at present. Mr. John Stuart Mill says,—"It is no part of the design of this treatise to aim at metaphysical nicety of definition, when the ideas suggested by a term are already as determinate as practical purposes require." Ominous commencement! Imagine an astronomer proclaiming that it was no part of his design to aim at metaphysical nicety of definition, but that he intended to write a treatise adopting all the loose phraseology of the public. People invariably talk of the sun "setting." Fancy an astronomer at the present day, taking that popular expression as the basis of his system! Imagine, again, a writer on

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mechanics boasting that he eschewed any nice inquiry into the nature and action of forces, but meant to found a system on the loose babble of common talk! Why, it is the glory and the triumph of these sciences that their cultivators eschewed all such plans, and rigidly investigated, from the very foundations, the elementary ideas of each subject, that they did NOT rest content with these loose expressions, but never were satisfied with less than rigid accuracy. And see what has been their reward! If they had not done so, we should have advanced no further than the ancients. Accordingly, Mr. Mill studiously avoids telling us precisely what he means by some of the most important terms in the science, and we are only left to gather, by conjecture from his context, what he really does mean, and the result is exactly what might be predicted, he entertains the most ludicrous misconception of several of the most important words in the science.

25. The fact is, that whenever an author on a scientific subject sets little store on accurate definitions, we may infallibly expect either that he has no knowledge of how such a work ought to be written, or else it argues incompetence to establish definitions, from a want of practical knowledge of the subject.

26. Archbishop Whateley notes that "the GREAT DEFECT of Adam Smith, and of our own economists in general, is the *want of definitions*;" * and, again, "The foundation of political economy being a few general propositions deduced from observation, or from consciousness, and generally admitted as soon as stated, it might have been expected that there would be as little difference of opinion among political economists as among mathematicians—that being agreed in their premises, they could

* Elements of Logic, p. 406. Seventh edition.

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not differ in their conclusions, but, through some error in reasoning so palpable as to be readily detected. And if they had possessed a vocabulary of general terms as precisely defined as the mathematical, this would probably have been the case. *But as the terms of this science are drawn from common discourse, and seldom carefully defined by the writers who employ them, hardly one of them has any settled and invariable meaning*, and their ambiguities are perpetually overlooked."* And Mr. Mill most aptly, but most suicidally, quotes from Say, a remark that it is in the very elements of our subject, that illustration is most usefully bestowed, since the greatest errors which prevail in it may be traced to the want of a thorough mastery over the elementary ideas.

27. Cobbett wrote an English Grammar in which all the examples of solecisms and blunders were drawn from the speeches of peers and members of parliament; so we might undertake to write a complete treatise on logic, and every example of logical fallacy should be drawn exclusively from the published opinions, either spoken or written, of Mr. Ricardo, Mr. M'Culloch, Mr. John Stuart Mill, Mr. Samuel Jones Loyd, Col. Torrens, Mr. Norman, Sir Robert Peel, and Sir Archibald Alison, on the subject of the currency.

28. It will be found that a very large proportion of the errors which deform this most noble science spring from a false perception of definitions. Thus, a great part of that prodigious delusion, the Ricardo theory of rent, rests upon an absurd *definition* of rent. The source of the error of those who exclude bills of exchange from the title of "circulating medium" springs from a misconception of the fundamental idea of the expression "*circulat-*

* Elements of Logic, p. 402. Seventh edition.

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ing medium." And if it were possible to select one error more prominent than another, we should say that the prodigious fallacies of Mr. Ricardo, Mr. M'Culloch, and Mr. John Stuart Mill, on the subject of Capital and Credit, spring from their never having attained the smallest glimpse of the fundamental idea of CAPITAL, and from their most puerile and absurd ideas of what CREDIT is.

29. Chief above all in importance, is it necessary to fix and define the meaning of the word CAPITAL. This word has undergone so many Protean changes of signification by political economists who use it in different senses without warning or consistency, as to have thrown all monetary science into inextricable confusion. It is absolutely necessary to enter into some little examination of its nature, to discover and settle which is its primary meaning, and which its metaphorical and secondary meaning, that we may always see at a glance from the context in which sense it is used. But, to do this satisfactorily, we must trace its growth from its very first origin.

30. When a man is born without hereditary possessions, and has no property presented to him, there is but one method by which he can live, that is, by personal services, or labor of some description, either mental or bodily. When such a person has found some one else who stands in need of his services and employs them, he is entitled to some compensation, some reward or wages. The first necessities of the laborer are food, clothing, and shelter; consequently, the first reward he must receive must be food, clothing, and shelter. His employer must either give him these things directly, or else he may give him something which will enable him to procure them from some one else. That something, which is not an equivalent itself, *but only the means of obtaining an equivalent*, is money. This latter method of rewarding

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services is that almost universally adopted among civilized nations. Now, when the laborer has received his wages in money, he has not received an equivalent for his services, but only something which will enable him to get what he requires or chooses. The money, therefore, that he possesses is not *the equivalent*, but it is the symbol or proof that he has rendered services for which he has NOT YET RECEIVED AN EQUIVALENT. The laborer does not receive the coin for its own sake; what use can the actual silver be of to him? but because it is the universally recognized and accepted power of commanding what he wants. Now, if the laborer spends all his money in buying commodities for use, it is clear that at the end of the year he is in no better condition than he was at the beginning. There is nothing but the same weary round of toil before him. He must again enter on a similar course of labor, or personal services, to earn again the means of subsistence, and so on for all his life. But, suppose that instead of spending all his earnings on commodities, he saves a portion of them, then his condition at the end of the year is better by just so much as he has saved; and that saving represents such portion of his services rendered for which he has not yet received an equivalent. And that saving is called CAPITAL. Whether it be a penny, a shilling, or a pound, that is the first germ of CAPITAL, and the more that the laborer saves from spending the more does his capital grow. Now, the part of the money that he spends is denominated REVENUE, and the part that he saves is CAPITAL. Hence, THE FUNDAMENTAL IDEA OF CAPITAL IS THE STORE OF ACCUMULATED LABOR WHICH ITS OWNER HAS NOT YET SPENT IN PURCHASING COMMODITIES. It does not represent commodities in any way whatever, but only the power of its owner to purchase what he pleases; and it is manifest that it bears no definite relation whatever to

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commodities, because the quantity of capital the laborer accumulates is just the quantity which he refrains from spending. Such, then, is the fundamental idea of Capital which it is essential to grasp and retain, and which is the fundamental idea of Monetary Science. Capital is, therefore, nothing but a store of accumulated labor which has not yet been spent, and it is necessary to have some material substance to represent and measure it, and that substance is MONEY.

31. The primary, genuine, and exclusive meaning, then, of Capital, is the accumulated savings of labor, and its symbol is money. The first meaning which every man in business attaches to the expression Capital, is money. Thus, a capitalist is a person who has a large stock of money at his disposal; to bring Capital into a business is to bring *money* into the concern. When a man is said not to have a sufficient Capital to carry on a business, it means that he has not a sufficient command of ready money.

32. Now, as soon as a person began to labor for hire it became necessary to fix upon some substance to represent labor, which should be received as the general power of commanding services. And it also became necessary that a specific *quantity* of that substance so selected should represent a specific *quantity* of labor. Different nations have selected different substances—some tobacco, some chocolate, some sugar, some shells, but they all selected some particular *substance* for this purpose. The most civilized nations, have, however, both in ancient and modern times, given the preference to two particular substances, above all others, for this particular purpose, and these are gold and silver bullion. It has also always been settled among these nations that the *quantity* of bullion is always proportional to the value of

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the service, not that the same quantity of bullion will always command the same amount of service or commodities at *different* times, but, at the *same* time, one half the quantity of bullion will only command one half the quantity of services. Among all these nations, then, the WEIGHT OF BULLION IS THE MEASURE OF VALUE. It is impossible to conceive a more puerile, or more false, or more ignorant assertion, than that of Sir Archibald Alison, when he says that the measure of value is an *abstract* thing like a foot or a yard, the measure of length. Value is always measured in reference to a defined quantity of some given substance, and the quantity of substance which the measure of value in England and France originally expressed, was a POUND WEIGHT OF SILVER BULLION OF A DEFINITE FINENESS.

33. A given weight of bullion, then, has always been the acknowledged symbol of capital, or of accumulated labor, and whenever any one possesses this bullion, and wants to buy commodities, it is always a struggle between the two parties how much of his former services, how much bullion he shall part with, in order to obtain the commodity he requires.

34. Now, let us suppose that our laborer having accumulated a store of capital, *i. e.*, its symbol money, by abstaining to spend his earnings as revenue, or has a quantity of it given him, which is merely the result and the accumulated store of some one else's labor, and becomes a merchant or trader, let us trace the operation of capital and its change of meaning then.

35. The object of commerce, and the business of every merchant and trader, is to cause a circulation of commodities, to bring commodities from persons who have more than they require of them to persons who have less than they require. As soon as a merchant has discovered,

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or fancies he has discovered, persons in this condition, it is his business to step in and restore the equilibrium, and this he does by buying commodities from persons who have too much, and selling to those who have too little. The greater the stream of commodities he can cause to pass through his hands the greater will be his profit. Now, as the commencement of his operations must be buying the goods he means to sell, what is the *power* which enables him to purchase them?—CAPITAL. Capital, therefore, is the purchasing power—the moving power of commerce—the power that causes the goods to move from the producer to the merchant—or it is the circulating power which causes the goods to circulate. In its primary meaning it does not mean the commodities themselves, but the POWER which transfers the property in them from one person to another.

36. But the object of the merchant in buying the goods is not to keep them to himself, but to sell them to other people, and to sell them for as much more than he gave for them as possible. The obtaining the goods in the first instance was only a means to an end. The true object of the merchant is to possess more money at the end of the transaction than at the beginning. If he gave £1,000 for the goods, he hopes, perhaps, to receive £1,500 for them. Now, his ultimate object is to gain money; his spending £1,000 was only the means he adopted which he thought would bring him £1,500. Consequently, by a simple transition, the name of *Capital* is applied in a metaphorical and secondary sense to the commodities, which are the moving power to enable him to get possession of the £1,500. Hence, it must never be forgotten, that the original, primary, and genuine sense of Capital, is the circulating power of commodities, and that when

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applied to commodities it is only in a secondary and metaphorical sense, because they complete, as we may say, the revolution of Capital.

37. There is a very expressive mercantile phrase in common use. When a man has bought goods and sold them again, he is said to *turn over his capital.* Now, buying goods is only one half the revolution; selling them again completes the revolution. Hence, as the great object is to complete the revolution of capital, whatever conduces to that object is denominated *Capital.* Now, every trader knows that the great object in commerce is to cause as many revolutions of capital as possible. Every trader knows that what conduces most to his opulence is not making a large profit upon a few transactions, *but upon turning over his capital as often as possible*, and that he will probably get rich much faster where his profits are the smallest.

38. Traders have found this out instinctively, and it can easily be proved by the simplest arithmetical consideration, it is one of the grand discoveries of modern commerce, yet its importance has not been appreciated by any amateur writer upon political economy. While most of them spend much labor and time in discussing profits, they have failed to see that the number of operations is far more important. Thus, if a man were to make a profit of 50 per cent. upon one transaction, that would be a high profit; but if he only made one transaction in the year, he would not increase fast in opulence. But, suppose he makes a profit of only 5 per cent., but makes that in one day; if he could repeat that every day of the year, his profits at the end of the year would be above 1700 per cent. Consequently, it will invariably be found that frequent revolutions of capital with small profits,

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conduce to opulence much more than slow revolutions with large profits.

39. Now, there are two great divisions in the method of employing money—the one in purchasing articles which the owner means to keep, and which he buys for his own sake; the other in purchasing articles for the express purpose of selling them again with a profit, or which the purchaser buys, because he hopes and expects that other people will require them. When money is employed in the former manner it is called REVENUE, in the second CAPITAL; and in the former case the owner of the money is said to *spend* it, in the latter to *invest* it.

40. But the word Capital is capable of a still further metaphorical extension of its original and primary meaning. As the object of every man's labor is to gain money, whatever conduces to that end may, in a figurative sense, be denominated *Capital.* Thus his skill, judgment, character, may be called his Capital; nay, even his personal strength, and every instrument however humble, which enables him to pursue his calling, or trade. Now, with these elementary truths clearly impressed upon us, we shall be at no loss, in any case, to understand the meaning of *Capital*, whether used in its original and genuine sense, or in its derived and metaphorical one.

41. But a man's integrity, skill, judgment, and character may serve him as *Capital* in a much more direct sense than the latter one we have just spoken of, namely, as the direct circulating power of commodities. When the merchant bought goods with capital, he invested a portion of the realized symbol of his *past* skill, judgment, and industry. But mercantile instinct devised a circulating power which should be the symbol of *future* skill, judgment, and industry, and this circulating power is

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CREDIT. The merchant instead of buying goods with actual money, was allowed to buy them with a "promise to pay" money. By paying money he gave his former industry, by buying on credit he pledged his future industry. The actual money was to be obtained by his future labor, skill, and judgment in selling the goods and obtaining the money for them from those who wanted them, out of which the actual payment should be made. Now, this system of buying goods with a "promise to pay" is called the SYSTEM OF CREDIT. It must be carefully observed, that the property of the goods passes to the buyer equally, whether the operation be by actual payment, or only by a "promise of payment." Wherever, therefore, sales are made upon credit, *credit is equally a circulating power with real capital.*

42. Now, as in commerce, Capital is the circulating power as contradistinguished from the commodities themselves; and as the object and function of Capital is to circulate commodities, it follows, that whatever power also equally circulates commodities, is equivalent to Capital, and that the whole circulating power constitutes the CIRCULATING MEDIUM.

43. Now, let us examine the result to the merchant according as he employs capital or credit as purchasing power.

If he possesses £1,000 of capital at the beginning of the transaction, and invests it in commodities, sells them for £1,500, he is better off at the end of the transaction by the sum of £500, which forms his *profit.*

If he buys them with his "promise to pay," the producer makes a difference; he stipulates to have a somewhat higher payment in consideration of its being postponed, and that according to the length of the postponement. Thus, if he sold for £1,000 for ready money,

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if the payment was postponed for a year, he would probably demand £1,100, and so on in proportion for any lesser time. Now, if the merchant bought on these terms, if he bought the goods with a promise to pay £1,100 at the end of the year, and if he sold them as before supposed for £1,500, his profit at the end of the operation would only be £400 instead of £500, and this difference of £100 is called the *discount*. Hence, credit is less profitable to the merchant than capital by the discount.

44. Now, in general, the profits are very much less than we have supposed, and the worth of doing the transaction is just the difference between the *discount* and the *profit*; and in certain states of the money market the discount may equal the profits, and then buying or trading on credit must cease. Thus, if a tradesman buys goods which he can have for £100 ready money, and which he can sell for £110, then, if the rate of discount is £5 per cent. he still has £5 profits; but if the rate of discount rises to £10 per cent., then the discount being equal to the profit, he has no advantage in such a transaction, and such trading on credit must cease.

45. Hence, CAPITAL AND CREDIT CONSTITUTE THE CIRCULATING MEDIUM; and conversely, the circulating medium consists of capital and credit in all its shapes and forms. Now, "promises to pay" are of different forms, but yet they are all purchasing power.

46. These considerations show the fundamental nature of Capital and Credit, and the essential distinction between Capital and commodities. The one being the power which transfers the other, and only being metaphorically applied to the commodities in which it is temporarily invested. Hence, as Capital and Credit perform exactly the same functions, and are essentially of

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the same nature—the one being the symbol of past labor, the other of future labor, but both being transferring power, it is not an incorrect expression to say that *Credit is Capital.* A trader's purchasing power consists of his Capital and his Credit; when he can purchase nothing he is said to have neither Capital nor Credit; and when in this unhappy condition he must fall back upon personal labor to support himself.

47. Such are the true elementary ideas of Capital and Credit, and these are the fundamental ideas of Monetary Science, but which have been more grossly distorted and caricatured by writers on political economy than almost any other terms in the science, if that be possible. We have no hesitation in asserting, that no man who does not thoroughly weed out of his mind the prevalent doctrines of political economists of the day, can have the faintest glimpse of the true foundations of Monetary Science. So long as a man believes that Capital or money represents commodities, he can have no true idea of monetary science.

48. It is scarcely possible to conceive the prodigious confusion into which the whole science of political economy has been thrown by a misconception of the true nature of Capital and Credit by those writers who pass for "established authorities" at the present day, more especially by Ricardo and his modern followers, Mr. M'Culloch and Mr. Mill, and the false distinction between Capital and Currency, of which we shall take some further notice.

49. These two latter writers comment upon the supposed error of saying that credit is capital. Mercantile men, who see that credit performs the functions of money, say instinctively, that credit is capital. But these writers, applying the word capital to commodities—

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using it in its metaphorical sense for its original one—ridicule those who say that credit is capital; whereas when we see that the main object of capital is to act as the moving power of commodities, and that credit is also equally a moving power of commodities, it follows that the doctrine—that credit is capital, degenerates from a heresy into a truism!

50. No writer on political economy has seen the generic distinction between capital and commodities—the one being the transferring power, the other the things that are transferred—or marked the primary and the metaphorical meanings of capital; Adam Smith takes both money and commodities as capital, indifferently. Ricardo introduces the word without a syllable of explanation, and gives none throughout his treatise. Mr. Mill agrees very much with Adam Smith; for he says* that, "Besides the primary and universal requisites of production, labor, and natural agents, there is another requisite, without which no productive operations, beyond the rude and scanty beginnings of primitive industry, are possible—namely, a stock previously accumulated of the products of former labor. *This accumulated stock of the produce of labor is termed capital.* The function of capital in production, it is of the utmost importance thoroughly to understand, since a number of the erroneous notions with which our subject is infested originate in an imperfect and confused apprehension on this point. *Capital, by persons wholly unused to reflect on the subject, is supposed to be synonymous with money.* * * Money is no more synonymous with capital, than it is with wealth." Now, we say that this view of Mr. Mill's is wholly erroneous, and the persons whom he censures come much nearer the

* Principles of Political Economy, Vol. I., p. 67. Second Edition.

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truth than he does himself. It is true, that capital is not exactly synonymous with money; but money is its symbol and representative. To say that the accumulated stock of the *produce* of labor is termed capital, is, we have no hesitation in saying, to destroy the fundamental principles of Monetary Science. And when he says, that "money cannot, of itself, perform any part of the office of capital, since it can afford no assistance to production. To do this, it must be exchanged for other things; and anything which is susceptible of being exchanged for other things, is capable of contributing to production in the same degree." It is just paving the way for the admission of the doctrines of Law, that a paper currency may be based upon any commodities, indifferently, with gold bullion. Money and commodities represent two essentially distinct ideas. Money is simply the symbolical store of unexpended labor; commodities are the produce of expended labor. It is perfectly true that any other substance might have been selected to symbolize this idea, and then that substance would have represented CAPITAL, and would have been generically distinct from all other commodities, just as bullion is so at present. But all civilized nations have selected bullion to perform this office, and until some other substance is discovered, better fitted by nature for that purpose, bullion will continue to do so.

51. We have been so minute in this matter, because no writer on political economy has seen it in its true light; and yet it is impossible to have clear and accurate conceptions of the foundations of monetary science upon any other hypothesis. But if political economists have failed to attain a true glimpse of the essential idea of capital, which is unquestionably of rather a subtle nature, still more confused and inaccurate are

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their ideas of credit, for which there is positively no excuse at all. But they use language which is so palpably self-contradictory, that it is surprising that its inconsistency does not strike themselves. And in this instance, and so many others, their erroneous arguments are founded upon a profound misconception of the nature of the transaction expressed by the word CREDIT. Thus, Mr. M'Culloch defines credit as "the term used to express the trust or confidence placed by one individual in another when he assigns him money, or other property, ON LOAN, or without stipulating for its immediate payment. The party who *lends* is said to give credit, and the party who *borrows*, to obtain credit. * * * The most common method of making a *loan* is by *selling* commodities on credit, or on condition that they shall be paid for at some future period."* It is scarcely possible to conceive how any writer could pen such sentences, without perceiving their amazing contradiction in terms. Who ever heard of making a *loan* by *selling on credit?* To *lend* and to *sell* are two things totally distinct in their nature. To shew the profound absurdity of Mr. M'Culloch's views on the subject of credit, we have only to appeal to the plain meaning of words in the English language. Surely, every schoolboy knows to *lend* a thing is only to part with the temporary right of possession to the borrower; but to *sell* a thing is to part with the *property* of it for ever. To talk of *lending* anything by *selling* it on credit, is simply a gross confusion of idea and language, which no man who paid the slightest attention to accuracy of expression could have put forth. Mr. Mill has not given any definition of credit; but from the expressions he uses regarding it, it is evident that he enter-

* Commercial Dictionary. Art. Credit. p. 467.

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tains the same fundamental fallacy of considering it as a *loan*. Thus he says,* "Credit being only permission to use the capital of another person;" and from the whole context of his chapter, it is plain that he has no idea of credit beyond a loan from one person to another.

52. Now, that credit sometimes assumes the form of a loan, is true. But that is not what is meant by the *credit system*. For every case where credit is a loan, there are probably twenty thousand in which it is a *sale*. The expression, the *system of credit*, applies almost exclusively to *sales*, *i. e.*, where the property of the goods is transferred, as well as the possession. A sale on credit is as complete a transfer of the property of the goods to the buyer from the seller, as if they were paid for in money. It is in no point of view whatever a *loan*. The general definition of credit is where persons give their services or commodities for a "promise to pay," instead of actual payment. In all cases where a "promise to pay" is accepted, instead of actual payment, it is CREDIT.

53. Now, all forms of "promises to pay" are parts of the great system of credit, whether they be Bank notes, cheques, or bills of exchange, or promissory notes; in all cases where one of these instruments is taken in exchange for goods, or even entries on credit in books, it is an operation on credit, and must be regarded as a part of one great whole, which is one of the most remarkable systems devised by human ingenuity.

54. In accordance with the contracted and inaccurate views of credit taken by these two writers, who regard it as merely a loan of capital from one person to another, they say that the same capital cannot be used

* Principles of Political Economy, Vol. II. p. 36. Second Edition.

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both by the lender and the borrower; and that credit conduces to production in no greater degree than that the borrower will use it more actively than the lender. But such views only shew their profound ignorance of the details of banking business. For, by the nature of banking, the same capital is pledged to the use of several individuals at the same time. The whole art and genius of banking consists in forming a sound judgment as to how many different parties the banker may pledge the same identical capital to; in what times and seasons he may pledge it to a greater number of persons; in what times he must pledge it to fewer individuals; and this he does by judging in how many cases his "promises to pay" will be equally effectual with actual cash. When Mr. Mill says that the same sum *cannot be used* as capital, both by the owner, and also by the person to whom it is lent, he says what is true in a certain sense. It is undoubtedly true that the same sovereign cannot be in two places at once; it cannot be in the pocket of the merchant, and the pocket of the customer, at the same instant of time. But if we take the expression, not in its literal sense, but in what is its *substantial* meaning; if he means to say, that by the system of credit, the same quantity of capital may not be made to perform its duty, its circulating power, by more than one individual at once, he makes a statement which every clerk in a banking-house knows to be absurd, and the erroneousness of which we have fully exhibited in Chapter XIV.

55. When, therefore, we look at the substantial meaning of the expression, *capital*, *i. e.*, the circulating power—the power or medium that circulates commodities, not only is credit capital, and therefore circulating medium, *but it is the great circulating power of modern commerce.* The quantity of goods that are transferred or

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circulated, and the services rendered for which "promises to pay" are received and accepted, is probably many hundred times that in which actual payment is made at the time of the sale. When real capital only is used as circulating power, it is like water driving a mill-wheel, but when credit is superadded to capital, it is like converting that water into steam.

56. This long examination of the nature of capital and credit, will not be thought misplaced by those who have paid any attention to the subject as treated by the chief writers on political economy. If these views be accepted, they will cause a very great alteration in the generally received opinions upon the subject. Now, we do not hesitate to say, that there is not a single writer on political economy who has given a correct account of them, and more especially what has been written lately, is the result of the most extraordinary misconception of the nature of the thing, the most profound ignorance of the details of business, clothed in language so palpably self-contradictory and inaccurate, as to excite nothing but surprise.

57. We must abstain from saying anything regarding other definitions in the science, in common use. They will also be found to express much inaccuracy of thought, but the two we have been considering are two of the most important. We must now proceed to consider the next great point—that is to determine, and accurately to express, *the law which governs the change of relations between these objects*. No one who is acquainted with mechanical science can fail to see the close analogy between it and Monetary Science. Indeed, we might almost say that Monetary Science is a *branch* of mechanics. They are both of them questions of pure forces, and the grand principles that govern mechanics may be adapted

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by a proper form of expression to Monetary Science. The great problem in Monetary Science is to determine what causes a change of price, or value.

58. The modern doctrine is, that the *cost of production regulates value*. Ricardo is the parent of this law, and it is adopted by Mr. Mill. We affirm that no more stupendous philosophical blunder ever infected the principles of any science.

59. Before we point out the tremendous fallacy of this law, and the insuperable objections to it on philosophical grounds, we must make a few preliminary observations.

Some political economists say that is not the business of political economy to account for particular cases, but only general tendencies; but we totally disclaim such ideas. If it be possible to obtain a general philosophical rule, it must be applicable to all cases. It is the very essence and genius of the Inductive Philosophy to analyze particular cases, deduce general rules from them, and shew how they apply to all other cases. Now, in the sciences which more usually go by the name of Inductive, it is the very test of the truth of rival theories to explain particular cases. There is no other way of testing their truth, and, accordingly, when two apparently plausible theories have been brought to the trial, and one of them has failed to account for phenomena, it has invariably been rejected. Moreover, a true theory must account for *all* the phenomena in that science. It must be true in all cases, and to any extent. A single fact that can be shewn to be absolutely irreconcilable with a theory, is fatal to it.

60. A theory is a fact which is proved by circumstantial evidence. We see a number of phenomena, or even a single one. We have no direct evidence how

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these phenomena came about, but we form conjectures of their causes, we apply these causes, and discover what their effects ought to be. If these causes produce some of the effects, we are strengthened in our confidence of the truth of our conjectures, if we apply our supposition to a wider circle of facts, and it still accounts for them, we are still further strengthened, and if it can be shewn that it accounts for all, we become sure that the theory is correct; it then takes rank as a truth. If we had direct evidence of the truth of our conjectures, then they would not form a theory at all, but a certainty. But if it can be shewn, and it is acknowledged that large classes of cases are wholly unaccountable on the assumed theory, then we know that it is absolutely wrong, and must be unhesitatingly rejected.

61. Now, in the experimental sciences, when the phenomena are directly palpable to the senses, the experiment controls the language. The results are so unmistakeable that there is not much difficulty in framing an expression conformable to them. A difference of opinion, then, about the formula, is seldom of long duration. But, in the sciences of the third class, which we have mentioned in the Introduction to Vol. I, this controlling power is lost. There is scarcely any direct power of experiment in them. But, still, the necessity for rigid accuracy of idea and precision of language is equally great in the one as in the other; but, instead of the controlling power of experiment, there is nothing but reason and intelligence to do so. Now, what is the great problem in Monetary Science? It is to determine what is the cause of price, and of the change of price, or value. And the expression sought for, must obey the same philosophical exigencies, as those in the ordinary Inductive sciences. No rule can be true, which is not applicable to all

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descriptions of cases of price, and to all their range, from 0 up to any height they may attain. Now, as the rule in experimental science is that that law only is the true one, which explains all the cases in the subject, we lay this down as an unquestionable truth in political economy:—

That if two or more forms of expression will explain or account for any phenomenon regarding price, or the change of price, that form of expression only is to be adopted as the true one, which explains all the phenomena in the science, and not the individual case only.

62. Tried by this rule, of which the correctness will not be disputed by any one who has the slightest acquaintance with the Inductive Philosophy, the law that the *cost of production regulates value*, breaks down, and fails utterly.

In the first place, there are whole classes of cases to which the rule is utterly inapplicable; as, for instance, the prices of all objects of art, such as pictures, statues, compositions in music; all questions of personal skill, such as barrister's fees, salaries of actors, the remuneration of authors, besides many others, as, for instance, all cases where the same cost of production produces articles of different qualities. In the second place, of all points in the range of prices, it will only account for prices being at *one* point, and even at that one point the rule requires that there should be such a qualification annexed to it, as to be fatal to its utility, because, for it to indicate price correctly, even in that one instance, it requires this essential qualification, that the supply should be unlimited. If the supply be limited, and the proportion of demand alters, the rule fails totally.

63. These considerations are sufficient to carry conviction to any one conversant with Inductive reasoning, that the law is totally false, and to be utterly re-

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pudiated. Archbishop Whateley pointed out that the fundamental principle of Ricardo's system of political economy of basing value on the cost of production, was false; and he says that by this one ambiguity, he has rendered his great work a long enigma.

64. But let us take the rule that value depends upon the ratio of demand and supply, and it is seen that this rule is *true in all cases, and to any extent.* All the cases which are exceptions and contradictions to the rule of cost of production regulating value, are EXAMPLES of the law of supply and demand. It explains not only all the classes of cases, but all the range of prices in each case, from 0 up to any extent. It also indicates, universally, the cause of a *change* of price. It bears, therefore, all the indelible marks of truth. It also accounts for the solitary case in which the cost of production regulates value, because it may be expressed in this form: "When the supply of any article is unlimited, people learn to adjust the supply to the demand, so that the price or value is nearly that of the cost of production." Commodities change their value constantly, while the cost of production remains the same. The doctrine, then, that cost of production regulates value is the most entire delusion.

65. Tried by the well recognised standard of philosophical reasoning, this rule wholly fails; but it is founded on a much deeper error in the nature of commerce. For it is akin to this fundamental fallacy that people buy *because* other people produce; whereas the contrary is the fact—people produce because they hope and expect that others will buy. All production is founded on speculation. Producers find out, or think of what other people want, and then they produce. A constant supply of some things is wanted. Inventors hope that they may excite, or create a desire. But it is

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no reason that people will buy because others produce, and if none want, or will buy what is produced, such a production has no *value*. All production, then, is founded on speculation, varying through all degrees of prudence, certainty, and risk. All producers speculate that there will not only be buyers who shall want their productions, but shall want them to such a degree of intensity as to be willing to pay a sum at least sufficient to pay the cost of production, and a profit besides, sufficient to remunerate them for their time and trouble. Now, the powers of consumption, generally speaking, are limited, but, in most cases, the powers of production are much more easily extended, and the amount of value, or the price, depends upon the proportion between the production and the consumption, hence production must always be adjusted to consumption, and not the reverse. Hence, also, we have this fundamental truth that SPECULATION IS THE MOTHER OF PRODUCTION, BUT DEMAND IS THE ORIGIN OF VALUE.

66. In mathematical language, then, value is a function of demand; it is NOT a function of the cost of production. The rule that cost of production regulates value, is one of the most pestilent heresies that deform and confuse the current political economy of the day. It is the fundamental fallacy upon which the Ricardo system rests. Many casual inaccuracies of expression might be pardoned, but this vice is incurable. We have no hesitation in saying that the whole system of political economy, as laid down by Ricardo, and developed by Mr. John Stuart Mill, is utterly and radically bad. It is a constitutional and organic error, which no form of expression can amend. Political economy can never advance a single step until this arch-heresy is utterly rooted out. VALUE DOES NOT SPRING FROM THE LABOR OF

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THE PRODUCER, BUT FROM THE DESIRE OF THE CONSUMER. To allege that value springs from the labor of the producer, is exactly an analogous error in political economy, to the doctrine of the fixity of the earth in astronomy.

67. The sources of the science of political economy are these:—Some men have money, the symbol of past services – some men have credit, the accepted symbol of future labor—some men can perform services—other men have commodities. All these classes stand in need of each other, they all reciprocally want what the others have, each strives to give as little of his own property, and to get as much of the others as he can, and they each go about seeking this object. Where money is, there will labor, credit, and commodities be gathered together. Where labor, credit, and commodities are to be had cheap, there will money run after them. All commerce consists of money seeking cheap commodities, and commodities seeking cheap money. It is the inequality in the proportion between these objects, that causes those mighty circulating currents of population, money, and commodities, always tending to equilibrium.

68. Value, then, has its true source only in the wants and the desires of the consumer, and the amount of it depends upon certain proportions being maintained between production and consumption, between supply and demand. Ricardo, among other numerous fallacies which he originated, started the doctrine that credit conduced nothing to production, that it was a mere transfer of existing capital, and in this he has been followed, as usual, by Mr. M'Culloch and Mr. Mill. But such ideas are wholly erroneous. It is just because "credit" is so great a stimulus to production, it is just because it accelerates production with such tremendous rapidity, so

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greatly to exceed all powers of consumption, that it is such an imperative necessity that the powers of this tremendous engine for good or for evil, should be wielded by persons and bodies who understand its true principles. All the great modern commercial convulsions have been brought about by the misuse of credit, by stimulating production to such an extravagant extent, that no powers of consumption could keep pace with them. The powers of consumption are limited by nature, the powers of production, for the time being, by the abuse of credit, are almost unlimited.

69. But we have not yet exhausted the philosophical objections to this unfortunate delusion. We may lay down this rule, *that every true formula, or general rule, must bear on the face of it all the elements which influence its action.* The effects of each element may vary from zero up to any extent, and will modify the result accordingly. Now, take demand as one of the several elements which influence value, and what trace of it appears on the face of the rule that cost of production regulates value?

70. The only true way of constructing a philosophical rule regulating value or price, is to consider all the causes which affect it. There are a certain set of causes which tend to elevate it, and a certain set which tend to depress it. Price, then, will vary *directly* as the causes which tend to elevate it, and *inversely* as those which tend to depress it. And that is the method we have adopted in constructing a formula in Chap. II.

71. In experimental science, the only way of testing the truth of expression is by varying the experiments. In politics and political economy, where the same facilities do not occur, the true way of testing the truth of rules and principles is to push them to extreme cases. It

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is the test and the triumph of a true theory to account for all phenomena, and to bear any strain. Some political economists pretend that the rules of the science are not applicable to extreme cases. An extremely convenient cover for ignorance, truly! Such arguments only prove the incapacity of those who use them. If an architect had miscalculated the strength of the materials of his columns, and his building came tumbling down, and he were to run about crying out, "It is an extreme case, the laws of mechanics do not apply to it!" the world would set him down as a fool. If an engineer whose boiler was to burst from bad workmanship, were to say that it was an extreme case, and that the laws of heat did not apply to it, he would be set down as a fool. In both these cases people would say that the architect and the engineer did not pay sufficient attention to the laws of nature. They would not say that the laws of nature paled before the incompetence of man. Those political economists who say that the laws of their science are not applicable to extreme cases, are just like such an architect, or such an engineer. Such a doctrine is the mere cloak of their own incompetence and ignorance. A false theory may account well enough for a particular case, like an engine may be at rest whose piston is crooked, whose wheels and cranks are all out of order. But the test of a well-finished engine is to work smoothly, it must be set in motion to test it properly. Just so with a theory; it must be worked—it must be set in motion. If it be true, like a well-fitting engine, it will work smoothly, it will explain all phenomena in the science; if it be not true, like a badly-fitting engine, it will crack, split, break in all directions.

72. Mr. Macaulay has used a similar line of argument with great skill and effect, to shew the prodigious

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folly of the doctrine of passive obedience so loudly and pertinaciously maintained by the Anglican clergy and the Tory party in the reigns of Charles II and James II:

"The greatest Anglican doctors of that age had maintained that no breach of law or contract, no excess of cruelty, rapacity, or licentiousness on the part of a rightful king, could justify his people in withstanding him by force. Some of them had delighted to exhibit the doctrine of non-resistance in a form so exaggerated as to shock common sense and humanity. They frequently and emphatically remarked, that Nero was at the head of the Roman government when Saint Paul inculcated the duty of obeying magistrates. The inference which they drew was, that if an English king should without any law but his own pleasure, persecute his subjects for not worshipping idols, should fling them to the lions in the Tower, should wrap them up in pitched cloth, and set them on fire to light up Saint James's Park, and should go on with these massacres till whole towns and shires were left without one inhabitant, the survivors would still be bound meekly to submit, and to be torn in pieces or roasted alive without a struggle."*

He then says, that, though people wondered that high spirited cavaliers should have been zealous for the most slavish doctrine ever known among men, the truth was, they were led to adopt it from self-interest and passion, for they always pictured to themselves the king as the head of *their* party and of *their* church. When the Republicans were dominant, the Royalist had endured wrongs and insults, which the restoration of the legitimate government had enabled him to retaliate:

"It had never crossed his imagination that a time might come when a King, a Stuart, would persecute the most loyal of the clergy and gentry with more than the animosity of the Rump, or the Protector. That time had, however, arrived. It was now to be

* Hist. of England. Vol. II. p. 392.

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seen how the patience which Churchmen professed to have learnt from the writings of Paul, would stand the test of a persecution by no means so severe as that of Nero. The event was such as everybody who knew anything of human nature would have predicted. Oppression speedily did what philosophy and eloquence would have failed to do. * * * That logic, which, while it was used to prove that Presbyterians and Independents ought to bear imprisonment and confiscation with meekness, had been pronounced unanswerable, seemed to be of very little force when the question was whether Anglican bishops should be imprisoned, and the revenues of Anglican colleges confiscated. It had been often repeated from the pulpits of all the cathedrals in the land, that the Apostolical injunction to obey the civil magistrates was absolute and universal, and that it was impious presumption in man to limit a precept which had been promulgated without any limitation in the word of God. Now, however, divines whose sagacity had been sharpened by the imminent danger in which they stood of being turned out of their livings and prebends to make room for Papists, discovered flaws in the reasoning which had formerly seemed so convincing."

73. This is a most apt illustration of the argument we are seeking to enforce. When the clergy and cavaliers preached that doctrine of universal obedience, they never dreamt that it would be applied to *themselves*. It was an extreme case. They only fancied themselves being indulged in an unlimited licence of persecution, and they thought the doctrine a very comfortable one; but when they were called upon to exhibit, in their own persons, the long-suffering, patience, obedience, and submission to persecution they so readily inculcated on others, every one knows the result. Now, this extreme case was just the test of the theory. It was applied to a case they never contemplated, and it broke down utterly. The cavaliers and clergy, being persecuted themselves, joined in rebellion against their sovereign! It became evident that the true doctrine was, that if a sovereign

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behaved like a tyrant and an oppressor, he might be expelled; the sole question was, what amount of tyranny, oppression, and mis-government justified expulsion.

74. Just so with political economy. If a form of expression, or a course of action, is not applicable to extreme cases, it is an infallible proof that that expression is wrong, and must be changed. It is the glory, the triumph, and the proof of a true principle, to bear any strain, however extreme. Let us never again, then, hear political economists saying that their doctrines are not applicable to extreme cases; or, if they do, let the public know that such ideas are a confession of incompetence. Now, we affirm, not only that the doctrine, that the cost of production regulates value, is only applicable in one particular case, and therefore utterly unphilosophical and untrue, but that the rule obtained in Chapter II. is applicable to all classes of cases, and to any extent, to all extreme cases; and that it is, therefore, true.

75. In experimental science, the correctness of the general principles obtained depends upon the minutest accuracy in the observation of the circumstances of the experiments. Every cause, however minute, must be allowed its due weight, and no certain result can be obtained until we are sure that all the causes have been discovered. Now, in Monetary Science, the correctness of the rules obtained depends upon a minute accuracy in the knowledge of the *details* of business. Exactness of the description of the details of business supplies the place of experiments. We have, therefore, endeavoured to be as minute as possible, in explaining the details of business; because, if these be correctly set forth, every one acquainted with the usual methods of philosophical reasoning can judge of the correctness of the principles we deduce from them. If only the details are accurately

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described, the principles to be deduced from them become a matter of certainty. The only way of impugning the doctrines of this work are, either by shewing that the details given are inaccurate, or that the principles deduced from them are not warranted by sound reasoning.

76. An equal cause of obscurity and confusion in a science, with that of a want of perception of true definitions, and the establishment of false definitions, is the erection of false distinctions and imaginary ambiguities of expression, where none exist in nature.

77. Among the false distinctions which prevail in the writings of the best known political economists, there is none more prominent than one between "currency" and "capital." Thus Mr. Tooke, says, "Totally unaware, as the authors of our new system were, of the distinction between *currency* and *capital*, when applied to the distinct functions of the precious metals, of serving, in the shape of coin for internal purposes, and of capital, when transmitted abroad, in liquidation of an adverse balance; still more striking, if possible, has been their disregard of that distinction in our internal exchanges." There cannot be a more false distinction, or one which exhibits a more profound misconception of the whole nature of Monetary Science, than the one just quoted. The idea that there is any distinction between the precious metals, as serving as coin for internal purposes, and as sent abroad to pay for debts, is perfectly futile. Whether a man purchases a commodity from a countryman of his own, or from a foreigner, can make no difference in the nature of the transaction. If his neighbour, the farmer's crops are destroyed by the visitation of Providence, he must send the sovereigns with which he would have bought his neighbour's corn, to buy it from an American. In the one case, he parts with a portion of his accumulated labor to

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a countryman, in the other, to the foreigner; and if he spends it, in either case, he must lose all control over it. But this distinction, which is most false, is near akin to a misinterpretation of the expression, that money is the medium of exchange, which is the parent of some most monstrous fallacies upon the subject. Thus, when it is commonly said, that money is the medium of exchange, many persons jump at the conclusion, that to act as the medium of exchange, is the sole function of money. Consequently, they argue, that when money—coin—is sent abroad to pay for provisions, as exchanges of commodities still continue to take place at home, that there ought to be a corresponding amount of paper currency issued, to supply the place of the gold that goes away. Money, no doubt, is used as a medium of exchange, and persons receive money for their services, because they know that they can purchase with it what commodities they require; but to act as a medium of exchange, is only the secondary quality of money. Its first quality is, to measure and record the services done by the person who earns it; and the value of money depends upon the quantity of the substance, as compared to the quantity of the services rendered. An increase of money or currency, without a corresponding increase of labor or services for it to represent, is simply to cause a depreciation of the value of the existing currency. If any person, then, is obliged, by the course of nature, or from his own good will, chooses to effect an exchange with foreigners, instead of his own countrymen, it can be no ground for an arbitrary increase of the currency. The quantity of the medium of exchange in any country is strictly proportional to the industry of the people of that country; if, therefore, they send a portion of it abroad, to purchase commodities, it is the profoundest delusion, to suppose

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that they can retain it at home as well; an increase of the medium of exchange, by the issue of Bank notes, under such circumstances, will only have the effect of driving abroad all the remaining metallic coin. The distinction between Capital and Currency, insisted upon so strongly by Mr. Tooke, is one of the most profound delusions that ever existed.

78. Another most false distinction, which is even of more importance, because it is one of the grounds of the Act of 1844, is that often made between Bank notes and Bills of Exchange, because it is alleged, that one closes a transaction, and finally liquidates a debt, and the other does not. Thus, Colonel Torrens, who is a very ardent advocate of the Act of 1844, says,* "The terms, money and currency, have hitherto been employed to denote those instruments of exchange which possess intrinsic or derivative value, and by which, from *law or custom*, debts are discharged and transactions finally closed. Bank notes, payable in specie on demand, have been included under these terms, as well as coin, because, by law and cnstom, the acceptance of the notes of a solvent bank, no less than the acceptance of coin, liquidates debts, and closes transactions; while bills of exchange, bank credits, cheques, and other instruments by which the use of money is economized, have not been included under the terms of money and currency, because the acceptance of such instruments does not liquidate debts, and finally close transactions."

79. There is nothing more dangerous than for a man to lay down legal doctrines, who is either not a professional lawyer, or practically versed in the business on

* The Principles and Practical Operation of Sir Robert Peel's Act of 1844, explained and defended, p. 79.

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which he writes. Colonel Torrens is neither a *merchant*, nor a *banker*, nor a *lawyer*, and yet he lays down certain general principles, founded upon his supposed ideas of law. But the result is what we might expect. Any student who has been six months in a pleader's chambers in the Temple could tell him that what he lays down as *law* in the above extract, is nothing but a series of blunders and absurdities. He has confounded what is law, with what is usually done. When he lays down, in broad, naked terms, that the acceptance of a Bank note legally closes a transaction, and liquidates a debt; and that the acceptance of a cheque, or bill of exchange does not do so, he makes a statement which is simply ridiculous; because in each case, there are certain *collateral* circumstances which it is necessary to attend to, before we can decide what is the legal effect of taking any instrument of credit in payment of a debt. It is not usual to require the person who offers an apparently good Bank note in payment of a debt, to endorse it, because, as the receiver can get the money for it at any moment, he does not expect the Bank will fail before he demands payment. He, therefore, takes the note at his own peril. But if he required the payer to endorse it, and then went and demanded payment of it within a reasonable time, and found that the banker had failed, then he would be entitled to recover payment from the person he received it from. But if he allowed a reasonable time to elapse without demanding payment, and the banker failed, then he would lose his remedy. On the other hand, to assert the universal proposition, that a bill of exchange does not liquidate a debt, is equally absurd. In some cases, it may do so. If a man take a bill of exchange, payable to bearer, *i. e.*, endorsed in blank, without requiring the payer to endorse it, *it is a final closing of the debt*, and he has no

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recourse against the payer, if the parties on the bill do not discharge it. Also, if the receiver requires the payer to endorse it, he must comply with certain very stringent conditions, in order to render him liable; if he fails in these, the payer is discharged. Now, all bills of exchange may be payable to bearer. After the first endorsement it is probable that there is not one in ten thousand which is not payable to bearer. The fact is, that it is usual for the receiver of a bill of exchange, to require the payer to endorse it *for his own security*, because there are more contingencies in the acceptor of a bill failing than a banker. But the general rule of Law is that *whoever takes a negotiable instrument payable to bearer, whether it be a Bank note or bill of exchange, in payment of a debt,* WITHOUT ENDORSEMENT, *does so at his own peril, and has no remedy against the person he receives it from, if it is not paid.* The same principle is true of a cheque, if the receiver does not present it for payment in reasonable time, he has no recourse against the issuer of it, if the banker fails. We see, then, that the broad, naked, unqualified assertion, that a Bank note liquidates a debt, and that a bill of exchange does not, is a gross delusion. And the generic distinction of making one kind of this credit, currency, and the other not, on this assumed law, is an unfounded fallacy; and when Colonel Torrens charges Mr. Fullarton with "inverting language and misstating facts," it is he himself who does so, through ignorance of what he is writing about.

80. Among alleged ambiguities of language where none exist, we shall take notice of what some respectable writers say of the expression "Value of Money."

We have observed that the price of an article at any given time depends upon the ratio of demand and supply.

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A fluctuation in price, then, arises from a change in those proportions. When the supply of an article is diminishing as compared to the demand, the price rises, the article rises in value compared to money, and money falls in value, compared to the article; when the supply is increasing faster than the demand, the phenomena are reversed, then the price falls, the value of the article falls compared to money, and money rises in value compared to the article. These changes in price, especially in articles of prime necessity, such as food, are very inconvenient. The interests of the producers and consumers are always opposed to each other. No doubt it would be more agreeable for all parties, if the nature of things permitted the price always to remain uniform. Now, a very inaccurate expression is in common use. Many persons are apt to say that the fluctuation of prices is a great evil, and, accordingly, many attempts have been made by barbarous laws to fix prices at a uniform rate. But the fluctuation of prices is not the evil, it is only the *sign* of the evil. The real evil is the change in the proportion of the supply and demand. When the supply is greatly diminished, and the price rises very high, it is not the high price which is the real evil, but the *scarcity* of the article. When the supply is excessive, and the price falls very low, it is not the low price which is the evil, but the overproduction of the article. A fluctuation in price so far from being *the evil* is, in fact, the great corrector provided by nature to remedy the evil.. When the evil is scarcity, a rise in the price not only warns people to be economical in the consumption of the article, but attracts it from other places where it is more abundant, and so provides the only natural remedy that is possible for a scarcity, namely, a more abundant supply. On the other hand, when the supply is too abundant, so that prices fall

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below a remunerating level, a fall in the price gives warning to producers to diminish their productions, in order that their value may not fall still lower, and it *repels* those articles from coming where they are already too abundant. The fluctuation in price is exactly identical in principle with the governor of the steam engine. When steam is rushing in in too great quantity, the governor is adapted by machinery so as to cut off the supply; when the supply of steam is too small, the governor opens the valve, and admits more; consequently, a change in the velocity of the governor is the corrector of the evil, which is a change in the uniform quantity of the supply of steam. Now, a fluctuation in price acts exactly in a similar way to the governor of the steam engine; it is the great natural corrector provided to preserve the uniformity in the proportion of the stream of supply compared to the demand; and those who interfere with the course of nature by attempting to fix prices, do exactly as foolish a thing as if they were to attempt to force the governor to revolve with uniform velocity.

81. A change in the quantity of articles that can be purchased with the same quantity of money, is called a change in the Value of Money; and the same expression, the Value of Money, is used in reference to the rate of discount. When the rate of discount rises, the Value of Money is said to rise, and when the rate of discount falls, the Value of Money is said to fall. This use of the expression has been severely censured by Mr. Mill* in his chapter on the Value of Money:—

"It is unfortunate that in the very outset of the subject, we have to clear from our path a formidable ambiguity of language. The Value of Money is to appearance, an expression as precise, as free

* Principles of Political Economy, Vol. II. p. 11.

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from possibility of misunderstanding as any in science. The value of a thing is what it will exchange for; the value of money is what money will exchange for ; the purchasing power of money.* * * But, unhappily, the same phrase is also employed in the current language of commerce in a very different sense. Money, which is so commonly understood in the synonyme of wealth, is more especially the term in use to denote it when *borrowing* is spoken of. When one person *lends* to another, as when he pays wages or rent to another, what he transfers is not the mere money, but a right to a certain value of the produce of the country to be selected at pleasure, the lender having first bought this right by giving for it a portion of his capital. What he really lends is so much capital, the money is the mere instrument of transfer. But the Capital usually passes from the lender to the receiver, through the means either of money, or of an order to receive money, and, at any rate, it is in money that the Capital is compared and estimated. Hence, borrowing Capital is universally called borrowing money; the loan market is called the money market; those who have their Capital disposable for investment or loan, are called the monied class, and the equivalent given for the use of Capital, or, in other words, interest, is not only called the interest of money, but by a grosser perversion of term, the value of money. This misapplication of language assisted by some fallacious appearances, has created a general notion among persons of business, that the value of money, meaning the rate of interest, has an intimate connection with the value of money in its proper sense, the value or purchasing power of the circulating medium."

82. A similar objection has been taken by other writers to the expression "Value of Money," as applied to the rate of discount, as involving an ambiguity. But these censures are perfectly groundless, and are founded upon the greatest misconception of the true nature of monetary business. There is no expression that can be more appropriate to the nature of the thing than applying the term Value of Money to the rate of discount. The principal operations in the money market consist in dis-

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counting Bills of Exchange. And *all* writers that we are acquainted with, and particularly Mr. Mill, consider this as *lending* money. But such an idea is profoundly erroneous. Discounting Bills of Exchange is not *lending* money, but BUYING DEBTS, and the rate of discount indicates the price of the debts. Debts are measured by time. Let us take £100 payable one year after date, as the unit of debt. Then the price of the debt is the sum paid for it in ready money. And the price of debts varies exactly according to the same rule, as the prices of commodities vary. The difference between the *price* of the debt and the *amount* of the debt is called the *discount*. Thus, if we take the unit of debt as above, and if it will sell for £97, then the discount is £3. If money becomes scarce, or many debts are pressed for sale, the same result happens exactly as regards commodities, the price of them falls, *i. e.*, the discount rises, that is, the Value of Money rises. Conversely, if money is very abundant, or the quantity of debts offered for sale diminishes, the price of them will rise, *i. e.*, the discount will fall, and the Value of Money falls. The rate of discount, then, is the indicator of the price of debts; and as it rises and falls, the Value of Money is most properly and correctly said to rise and fall, exactly on the same principles that the Value of Money is said to rise and fall in regard to commodities. In the one case the price of the commodity is always quoted; in the other, the difference between the price and the amount of the debt. The Value of Money is said to vary inversely to the quantity of debt or commodities it will purchase. There is, consequently, no ambiguity of expression in applying the expression Value of Money to the rate of discount or interest; on the contrary, no other expression would be appropriate.

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83. Seeing then that the rate of discount is the indicator of the price of debts, variations in the rate of discount are exactly identical in principle with fluctuations in the prices of commodities. The same incorrect ideas that are too common regarding the evils of fluctuations in prices are very prevalent respecting variations in the rate of discount. The idea that it is possible to preserve a uniform rate of discount, is as visionary as attempting to prevent fluctuation in prices. A change in the rate of discount indicates a change in the proportion of money to debts, and is the grand corrector provided by nature to restore uniformity. If the country is obliged to send its money abroad to buy commodities, and the debts offered for sale remain the same, a rise in the rate of discount naturally attracts money here from other countries; the rise in the rate is not the evil, but only the *sign* of the real evil, which is the scarcity of money, and is the natural corrector of it. On the other hand, if money is too plentiful, a fall in the rate of discount repels money from coming here, where it is already too abundant. In each case tending to equalize the price of debts, here and in other countries. Those writers, therefore, who inveigh against changes in the rate of discount, only shew that they have erroneous views of the fundamental principles of Monetary Science.

84. We have, in the preceding remarks, as well as through the whole course of this work, been led to controvert the views of other writers much more than we could have wished, or than we should have done if we had followed our own inclination. But the interests of truth imperatively required it. It would have been more agreeable to us to have unfolded the science in a *positive* form, without reference to the erroneous doctrines sanctioned by those who are considered as "established authorities." But such a course

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would not have been that best adapted to advance the science. All sciences must pass through the controversial stage before they attain the positive form. Now, Monetary Science is just in the controversial stage at present. It is necessary not only to unfold its true principles, but also to demonstrate how current opinions, which are sanctioned by great names, are wrong—to shew the philosophical fallacies upon which they rest. True science only advances through controversy.

85. These remarks are eminently true of Political Economy at the present day. THE TIME HAS COME WHEN ALL POLITICAL ECONOMY MUST BE RE-WRITTEN. Every error in thought and in language, which confused and retarded all the other Inductive Sciences, now deforms and obscures Monetary Science. There is hardly an expression in common use among writers on the subject which is not totally erroneous.

86. The reason why this noble science is in such a melancholy state of confusion is, that no writer who has handled it, possessed the indispensable qualifications for success. Monetary Science is as purely an Inductive Science as Mechanics, consequently, a competent knowledge of the Inductive Philosophy is absolutely requisite as the groundwork, to indicate the grand general principles upon which the subject is to be treated. Again, many of the views of the chief writers on the subject are founded upon certain assumed legal doctrines, consequently, a competent knowledge of that department of law is indispensably necessary to avoid the most absurd blunders. Again, Monetary Science treats of the causes influencing the movements of the circulating medium; and, consequently, a practical knowledge of the details of banking business is indispensably necessary. These three qualifications, then, are indispensably necessary to

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treat the subject in a successful manner. It never can be done, except by bringing the principles of true science to bear on the practical details of business. The union of these qualities alone will enable us to decide with certainty which expressions are to be adopted, and which are to be rejected, and makes us sure of the reasons which compel us to adopt the one, and to reject the other. We do not deny that able and acute men who do not possess these qualifications, may discover principles of great importance in the subject, and may be of essential service in advancing it. But without them, no one can rear up the science into a solid and substantial edifice, or can see how its great principles fit one into the other, so as to form one grand, complete, and self-coherent system. They cannot tell why some doctrines are to be received, and others to be inexorably rejected. It is scarcely possible to read many pages of them without seeing that the principles enunciated in one page, are utterly contradictory and subversive of the principles enunciated in the next page.

87. The author of this work would not be doing justice to himself, if he did not state that its views and principles are founded solely on his own practical knowledge of most of the subjects treated in it. When he controverts the views of others, it is from his own observations on the matter. When he condemns Mr. Ricardo's theory of rent as a perfect chimera and a delusion; when he says that it involves an error in principle, exactly the same as if we were to say that the height of the mercury in the thermometer regulated heat, *it is from his own practical knowledge of the subject.* The whole object of this work is to apply philosophical language to the practical details of business; to apply to the details of Monetary Science forms of expression,

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under the rigid control of those grand general principles of reasoning, which lie at the foundation of all science; to adhere rigidly to the same method of reasoning which has produced such noble and magnificent results in other sciences. To attain this object, extreme minuteness of detail is indispensable. We have, therefore, preferred to err on the side of over-minuteness, than of omission. Such a course is most conducive to the attainment of truth. If the details are not accurately stated, let them be corrected; if any of importance are omitted, let the omission be supplied. Again, if the principles founded upon these details are not consonant to sound philosophy, let it be shewn wherein they are in error, in what respects they are contrary to true science. But if it be admitted that the details here given, are sufficiently full and accurate, and that the principles founded upon them are conformable to the eternal nature of sound reasoning, then the conclusions proposed must be necessarily true.

88. The Eighth Chapter traces the origin of the modern business of banking during the civil war in the 17th century, and the honorable position the bankers enjoyed under Charles II., till that monarch robbed them of their money. It then describes how the public necessities in the reign of William III., caused schemes to be devised for raising money by way of perpetual annuities, in a similar manner to what had been practised in Italy for several centuries. These schemes terminated in the foundation of the Bank of England. A few years after the foundation of the Bank, the extremely debased state of the silver coinage, and the means adopted to remedy it, brought on a monetary crisis, and a partial suspension of cash payments by the Bank. The debased state of the coinage was accompanied with a serious

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derangement of the foreign exchanges. This great crisis is of peculiar importance in the theory of the currency, and, more especially so, as it has been noticed at some length in the Bullion Report, and was especially dwelt upon by Sir Robert Peel, in introducing the Act of 1844. But it unfortunately happens that this part of the Bullion Report is full of the gravest chronological errors, which have misled Sir Robert Peel into some extremely important fallacies on the subject of the currency. We have, therefore, quoted and criticised this extract from the Bullion Report, and by copious extracts from the Journals of the House of Commons, and from contemporary pamphlets in our own possession, have proved its errors by the most overwhelming evidence. We have also detailed the effects which followed from the restoration of the coinage, also from contemporary pamphlets, which are of great consequence as illustrating the true principles of Monetary Science. In fact, this great crisis is one on which it is impossible to bestow too much attention, and it is second only in importance to the longer period of suspension of cash payments, from 1797—1819. A thorough investigation and comprehension of the phenomena exhibited by a debasing of the currency during the period while it still continued metallic, is essentially necessary as a foundation for establishing the Science on a true basis, before the more subtle element of an inconvertible paper currency was introduced into it, a century later. We then examine the great monetary crisis of 1793, and the course adopted in that emergency regarding the paper currency, and the causes which brought about the final catastrophe in 1797. The chapter ends with the renewal of the Bank Charter in 1800.

89. The Ninth Chapter comprehends the most important period regarding the currency which has ever

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occurred in this country. We believe, that all the true principles of a metallic currency, and the phenomena resulting from a debasement of it, were well understood. But the suspension of cash payments introduced a new element into it, namely, an inconvertible paper currency, when the measure of value was changed from visible coin to mere "promises to pay" on pieces of paper, and the whole science had to be argued again from its very foundations. The insidious action of a paper currency, for some time eluded observation; how it stealthily and imperceptibly undermined the foundations of the value of all property. The circumstances of the two parliamentary investigations into the derangement of the Exchanges—the Irish case in 1804, and the far more famous English case of 1810—are detailed. We then give an analysis of the Bullion Report, and discuss the points at issue between the two parties, and the rejection of the principles of the Report by Parliament in 1811. By 1819, however, the most extraordinary change had taken place in the opinions of the commercial world upon the subject. While, in 1810, they were almost unanimous against the doctrines of the Bullion Report, in 1819 they were almost unanimous in favor of them. There is no more remarkable change of opinion on record; and of its completeness and unanimity, we give proof by ample quotations from the evidence of many of the witnesses of the greatest name in 1819. The Chapter brings the subject down to the great era of the Act for the restoration of the national measure of value.

90. The Tenth Chapter examines the causes of the great pecuniary distress of several very important interests of the community in 1822—3, the events which preceded the great crisis of 1825, and the action of the

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Bank in that emergency—all of great importance. In the year 1827, the last stronghold of obstinacy and ignorance on the subject of the currency, the Bank of England gave way, and at length recognized the truth of the Bullion Report. How ill they succeeded in carrying its principles into effect, is shewn by the crises in 1837 and 1839. At last, the conviction was forced upon the minds of all the great statesmen of the day, that the value of every man's property, and the safety of the whole monetary system of the country, could not be left in the discretion of the Bank of England, after such repeated instances of mismanagement; and that it became imperatively necessary to devise some machinery by law, which should compel the Bank to preserve itself in a position to meet its engagements. This Chapter brings the subject down to 1844.

91. The Eleventh Chapter gives Sir Robert Peel's views on the subject of the currency, which were the foundation of the legal restraint his Act imposed upon the issues of the Bank. We have pointed out several errors in fact, as well as of argument, upon which his views rested. We then come to the first occasion which occurred for testing the merits of the Act—the crises in April and October, 1847; the failure of the Act to compel the Directors to adopt a prudent course in the spring of 1847, and the authorization of the Government to transgress the limitation of issues prescribed by the Act in October. These crises can be regarded in no other light than a failure of the Act.

92. To the Twelfth Chapter we attach peculiar importance, almost more than to any other in the Work. For, it is an attempt to supply a most important desideratum. It is intended to investigate the fundamental philosophical fallacies upon which some of the most

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celebrated theories of currency rest. All the best writers and the greatest statesmen have agreed, that bullion is the proper basis of the paper currency. But no one has pointed out the philosophical reason why bullion is not only the *best* basis for a paper currency, but why it, and it alone, of all substances, is the ONLY true basis. We have examined some of the most famous theories of currency; first, that of John Law, and shewn the logical absurdity upon which it is based, and that all attempts to carry it into practice must necessarily terminate in ruin. We have illustrated this by an analysis of three of the most famous examples of it. Most writers confine their objections to issuing a paper currency upon commodities, to the danger of depreciation from excessive issues. But we have demonstrated the philosophical fallacy of basing any quantity of paper currency, however small, upon any commodities or property whatever, be it moveable goods, or land, or the public funds. Hence, we have shewn the fundamental vice of the constitution of the Bank of England. We have also called attention to the alarming prevalence of John Law's theory of money in the public mind at the present time, and the necessity for combating it. This Chapter also shews the fundamental fallacy of the principles of the Bank of England in 1810—of regulating the paper currency by the discount of good mercantile bills, which we think, is not satisfactorily shewn in the Bullion Report. All these considerations lead us to the conclusion, that the substance which is universally taken as the symbol of capital, is the only true basis of a paper currency, and that capital and credit are its only true limits, and that the true way of controlling it, is by the rate of discount.

93. Having considered these several theories, we

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are thus enabled, in the Thirteenth Chapter, to take a comprehensive survey of the Act of 1844, to point out precisely why it failed, contrary to the expectations of its framers, to prevent the paroxysms of 1847, and to suggest a remedy.

94. The Fourteenth Chapter is upon the Business of Banking. It explains the different methods bankers trade with their deposits and credit; the influence which their business exercises on the currency; the way in which it multiplies the powers of capital; the clearing-house—and the law of Bank Notes and Cheques.

95. The Fifteenth Chapter contains all the chief points of law connected with Bills of Exchange and Promissory Notes which a banker should be familiar with, and which occur in daily practice. It does not contain those parts of the law which only come into play when a bill or note has passed out of the hands of the banker into those of his solicitor.

96. The Sixteenth Chapter is upon Joint Stock Banking, and the various Acts affecting it.

97. It seemed that the Work might fitly conclude with some general observations upon the Banking System of England. The last Chapter, therefore, contains some remarks upon the subject.

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THE

THEORY AND PRACTICE

OF

BANKING.

CHAPTER VIII.

ON THE RISE AND PROGRESS OF BANKING IN ENGLAND UNTIL THE RENEWAL OF THE BANK CHARTER IN 1800.

ORIGIN OF BANKING IN ENGLAND—SEIZURE OF THE MERCHANTS' MONEY IN THE TOWER BY CHARLES I.—SHUTTING UP OF THE EXCHEQUER BY CHARLES II.—FOUNDATION OF THE BANK OF ENGLAND BY WILLIAM III.—GREAT MONETARY CRISIS IN 1696-7—PROGRESS OF THE BANK—GREAT MONETARY CRISIS in 1793—SUSPENSION OF CASH PAYMENTS IN 1797—RENEWAL OF THE CHARTER IN 1800.

1. Banking, in the modern sense of the word, had no existence in England before the year 1640. Up to that period merchants had been for a considerable time in the habit of depositing their bullion and cash in the Mint in the Tower, for convenience and security, under the guardianship of the Crown. Eleven years had elapsed since Charles I. had dissolved his third parliament,—eleven years crowded with incidents of the deepest interest in the history of the human race. The king and the parliament parted with feelings of mutual exasperation, and

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the monarch gave very plain intimation that henceforth he meant to have no more of them.* From that time he and the great apostate Strafford were engaged in a deliberate and systematic attempt to establish an absolute despotism on the overthrow of the ancient constitution of England. For a little while the king was triumphant—wicked judges decided against Hampden: Laud established an Anglican popedom on the banks of the Thames. Everything seemed to favor the design, and, humanly speaking, there is every probability that the eminent ability of Strafford would have been ultimately successful, when an incident occurred which destroyed the labors of so many years, and was the moving cause of a train of consequences which ended in the destruction of the monarchy and the church. The republican constitution of the Scottish church was an object of hereditary antipathy to the king, and his rash advisers with that suicidal intemperance which is the invariable characteristic of ecclesiastical despots, thought that the time had now come to force a prelatic liturgy upon the nation. The Scotch with fierce determination rushed to arms in defence of their ecclesiastical liberty, and the king did not hesitate to accept the alternative of civil war.

2. After some indecisive skirmishing, a treaty was at length agreed upon, probably with little sincerity on either side. But an accommodation of some sort was then an absolute necessity to the king. His first army had exhausted his scanty and ill-managed exchequer. It had cost him £300,000; not only all the money that had been laid up was wasted, but the revenue had been anticipated. The enemy were proud and insolent, the army corrupt and disheartened, the country mutinous and in-

* Parl. Hist. Vol. II. p. 525.

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clined to the rebels, and the court were all three.* The peculation that went on would be something incredible if it was not said on such excellent authority. The king thought he might rob every one else, so the officers of the revenue thought they had an unlimited licence of robbing him; of the sum of £200,000 raised from the people only £1,600 reached the exchequer.† The king was in despair, when he happened to intercept a treasonable correspondence between the Scotch and the king of France. At length, he thought, he might venture to call a parliament. The English nation would surely be roused to indignation at such flagrant treachery.

3. The writs were issued in December, 1639, for the parliament to meet on the 13th April, 1640. Notwithstanding the national exasperation at the proceedings of the king during the preceding twelve years—notwithstanding that by way of bravado, and to induce people to believe that the parliament was called entirely through the king's grace and good will, and not through necessity, ship money was levied with the same severity, and the ecclesiastical courts maintained their usual cruelty—the nation were sincerely anxious for peace and moderation. Under the influence of these feelings they returned a House of Commons, wishful to reform abuses, but composed of persons free from party engagements, afraid of all violence, secret combinations, or doing anything to hazard the peace of the country.‡ Clarendon bears testimony that there was not the least approach to any irreverence to the crown, that it managed all its debates and behaviour with wonderful order and sobriety, that it was exceedingly well-disposed to please the king, and to

* Clarendon. Edit. 1843. p. 59. † Ibid, p. 28.

‡ Guizot. History of English Revolution.

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do him service. In a debate on a case where the Lords had undoubtedly committed a gross breach of the privileges of the House, there was not an angry or offensive word spoken, and when an obscure member made a sneering remark upon the bishops, he met with no encouragement.

4. But the evil genius of the king prevailed. The unhappy monarch, utterly unconscious of the momentous nature of the problem which was in course of solution, quarrelled with the parliament which was his last hope of salvation. In a fit of indignation that it did not instantly submit to his haughty demands, and vote an enormous supply with the readiness of eastern slaves, he dissolved it within three weeks of its meeting, without having passed a single act; to the profound grief and despondency of all who were anxious for peace— to the gloomy delight of those sterner spirits whose souls thirsted for vengeance for the tyranny of years.* No sooner was the deed done, than he was seized with a fit of alarm and regret, and endeavoured to recall it, but it was too late. No supplies had been voted, but an invasion was imminent, and he was driven to devise expedients for raising money. He opened a voluntary loan, and in less than three weeks £300,000 were paid into the exchequer, chiefly by the Catholics. But this was quite inadequate to his necessities, and he resorted to other more discreditable means of raising money. He bought up an immense quantity of pepper from the merchants on credit, and immediately sold it at a heavy loss for ready money. It was debated for several days at his council to coin £300,000 of base money, with 3d. of silver in the shilling, but the plan was finally rejected, owing to the speech of

* Clarendon, p. 56.

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Sir Thomas Rowe,* a noble argument, which might have been studied with advantage nearly two centuries later. Besides this, the king seized the merchants' bullion and cash in the Tower, to the amount of £120,000.

5. The merchants were in consternation, as this cash was the provision they had made to meet their bills. They immediately met, and drew up and presented the strongest remonstrance to the Council. They pointed out the flagrant iniquity and impolicy of such a proceeding, and after the matter had been debated a whole day at the Council, they finally agreed to let the king have £40,000, upon receiving adequate security for its repayment with interest. The security was given, and the whole of the principal and interest was ultimately repaid to them.† But although they had succeeded in this instance in saving their property, the prestige of the royal honor was gone, they were too wise to trust their money again to such precarious custody, and they were obliged to keep it at home under the care of their own clerks and apprentices.

6. But their treasures were no safer than before. The plebeian cashiers were more dishonest than the king. In process of time, as the war went on, the martial ardour seized upon these gentlemen of the quill, they deserted their desks in multitudes to join the army, and carried off with them their masters' cash. Others lent out their master's money clandestinely to the goldsmiths at interest at 4d. per cent. per diem, which they kept to themselves. The goldsmiths, as might be expected from their business, had acuter perceptions with respect to the value of the bullion in the coin than the public generally. The

* Rushworth. Vol. III. p. 1217.

† Rushworth. Vol. III, p. 1216.

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money coined during the commotions was of very unequal weight, sometimes as much as 3d. difference in the ounce, and most of it heavier than it ought to have been, according to the relative value of the metals abroad. The goldsmiths did, what always will be done under such circumstances, they bought up all the heaviest coins, and melted them for exportation. Moreover, they began to lend out at interest the money that thus came into their hands. They advanced great quantities of money to merchants, and others, weekly or monthly, at high interest, and began to discount their bills. Finding this to be very profitable, they began to attract deposits to themselves, by offering interest for them, and allowing the depositors to have repayment whenever they pleased. People found it much more convenient to leave their money with the goldsmiths, where they could have it whenever they pleased, as well as their interest, than to lend it out on real or personal security.* They soon received the rents of all the gentlemen's estates, which were transmitted to town. Five or six stood pre-eminent above their brethren, and Clarendon says that they were men known to be so rich and of so good reputation, that all the money of the kingdom would be trusted or deposited in their hands.†

7. Their command of ready money soon brought them a much higher customer than the merchants. Notwithstanding the fame and the strength of the Protector's government, and his unquestionable sincerity in wishing to govern with free parliaments, he and they were unable to agree any better than his royal predecessor had done with them. They were jealous of his power, and kept

* The Mystery of the new-fashioned Goldsmiths, or Bankers, discovered. 1676.

† Continuation of Life, p. 1166.

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him in a constant state of financial embarrassment. He then applied to the "Bankers" as they then for the first time came to be called, and they advanced him money in anticipation of the supplies. They thus became almost necessary to the government.

8. The position the bankers had gained under the frugal government of Cromwell was not lost under that of his dissolute successor. The first care of the restored monarch was to disband the terrible republican armies. But they required to be paid off, and some hundreds of thousands of pounds were required to be got together in a few days. The slow receipts of the taxes were quite inadequate to effect this, and the ministers were compelled to have recourse to the bankers, and they were so well satisfied at their proceedings that they declared the king's affairs could not be carried on without their assistance.*

9. Their method of doing business with the crown was as follows. As soon as the supplies were granted, they were sent for to attend the king. He, having consulted his ministers as to what immediate sums were required, desired them to be called in, and they were then informed what ready money would require to be provided by such a day. They were then asked how much they could lend, and what security they would require. Each answered according to his several ability, for there was no joint stock among them, one perhaps £100,000, another more, another less. They were desirous of having 8 per cent. for their money, which the king and his ministers were quite ready to give, as a reasonable remuneration, but upon further consideration they determined to leave it to the king's own bounty, lest it might afterwards be turned to their disadvantage, mentioning at the same time,

* Clarendon—Continuation of Life, p. 1166.

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that they themselves paid 6 per cent. for it to their customers, which was known to be true.

10. They then received an assignment for the payment of the first money that came in under the act of parliament, or tallies upon such other branches of the revenue as were least charged. But even this was no security, as the king and treasurer might divert these payments to other purposes. "Therefore," says Clarendon, "there was nothing surer than that it was nothing but the unquestionable confidence in the king's justice and the treasurer's honor and integrity, which was the true foundation of that credit which supplied the necessities of the government. The king always treated them very graciously as his very good servants, and all his ministers looked upon them as very honest men."*

11. It belongs to the general historian to relate the terrible downfall of England's greatness in eight years from the death of Cromwell. The year 1667 may be considered as the nadir of the national humiliation. For the first, and, we may devoutly trust with Macaulay, for the last time, the citzens of London heard the sound of hostile cannon. With extraordinary infatuation the government rushed into a war with Holland, whose capital had illuminated when the news arrived of the death of their terrible antagonist, Cromwell, and little boys ran about the streets, crying that the devil was dead. Notwithstanding the unexampled magnitude of the supplies voted by parliament they were all embezzled by the courtiers, who made fortunes while the sailors mutinied for want of pay, and the ships were unseaworthy. The Dutch destroyed Sheerness and Chatham, burned the ships lying there, and insulted Tilbury.

12. Nothing could be more disgraceful and humil-

* Clarendon.—Continuation of Life, p. 1167.

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iating than the misconduct which led to this disaster, but the wild despair and ridiculous consternation that took possession of the people of London when they heard of it. The king alone, who never wanted personal courage, and the Duke of York, kept their composure, and put to shame the cowardice of a general officer, who thought himself one of the greatest soldiers in Europe, who declared the Tower not to be tenable, and refused to defend it. Every one in consternation rushed to demand his money from the bankers. It was known that they had lent it to the king, and the people believed that the regular payments out of the exchequer could not be made. To quiet the public alarm, the king on the 18th June, issued a proclamation to say that the payments of the exchequer would continue as usual, and stating that it was his steadfast resolution to preserve inviolable to all his creditors, all the securities and assignments made for repayment of their advances; that he would not upon any occasion whatever permit any alteration or interruption of these securities. He moreover said, that he held this resolution firm and sacred in all future assignments and securities to be granted by him upon any other advance of money for his service, by any persons on any future occasion.*

13. The insults and ravages of the Dutch were annoying and disagreeable, but they were inflicted by a brave enemy. Charles II. and his ministers plunged the nation into depths of disgrace a thousand times more humiliating. He sold himself, his country, her honour and greatness to the King of France, and for 20 years England counted in European politics for little more than the republic of San Marino. The public indignation at

* Case of the Bankers and their Creditors Stated and Examined. Appendix. 1674.

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the ravages of the Dutch demanded a scapegoat, and it was appeased by the ruin of Clarendon. Soon afterwards the king astonished and delighted the nation by entering into the Triple Alliance with the very people he had so lately been at war with, and Sweden. It was ostensibly to curb the overweening ascendancy of France and to maintain the protestant religion. While thus reaping popularity at home and respect abroad for this unwonted display of firmness and magnanimity, which revived the memory of Cromwell, the infamous traitor signed a secret treaty with Louis binding himself to re-establish the Roman Catholic religion in England, to unite with him, and destroy the very people with whom he was so ostentatiously in alliance. Bad as the Cabal ministry were, the indelible infamy of this transaction was peculiarly personal to the king. He himself went to Dover to negotiate it; it was he who suggested the most disgraceful articles, and abandoned as the ministry were, he thought only two of them sufficiently wicked to be entrusted with their knowledge.* The treaty was signed in May, 1670.

14. It was impossible to prevent some hints of what was going on reaching Holland. De Witt and the States took alarm at the recall of Temple, whose character for honor and integrity stood so high that his presence was considered as a sufficient guarantee of the fidelity of England. The king ordered him to leave his family at the Hague, and promised his speedy return. Parliament met in October. The king left the lord keeper to explain his views to them. The keeper expatiated upon the king's pleasure in meeting his parliament, the immense growth of the power and navy of the King of France, the king's alliance with the Dutch, the neglected and feeble state of

* Macaulay.—Hist. of England. Vol. I. p. 209.

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the navy, and the necessity of putting it in a position to cope with that of France. He ended by demanding a supply of £800,000 to fit out 50 ships of the line, to make him a match for his neighbours. The House eagerly voted him the supply asked for, and added to it a long homily upon the growth of popery, and earnestly petitioned the king to take measures to suppress it. The king took the subsidy, instantly prorogued the parliament, and with the treaty of Dover in his pocket, published a severe proclamation against papists, boasting that he had always adhered to the true religion as established against all temptation whatever.*

15. No sooner were the credulous Commons duped out of their money and dismissed, than the king set to work to pick a quarrel with the Dutch. They were wantonly provoked by a most outrageous insult. A small yacht, not even a man-of-war, was ordered to sail through their whole fleet on their own coasts, and fire upon them if they did not strike their flag to it. The Dutch, who tendered any explanation that the English government chose to dictate, were studiously insulted. Parliament was prevented from meeting lest they should declare against such atrocious proceedings. But the money of which they had been duped was soon exhausted by debts and expences.† France had promised to pay £200,000 a year during the war, a sum, however, quite inadequate to maintain the navy. The axe of Charles I. inspired the king and his ministry with too wholesome a respect for the English nation, to venture again upon ship money. In this dilemma the king declared that the staff of the treasurer should reward the ingenuity of the man who

* Parl. Hist. Vol. IV. p. 479.

† Hume. Chap. LXV.

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should discover an expedient for "raising the wind." Shaftesbury is said to have the merit of originating the idea, but Clifford reaped the profit and the honor. The expedient hit upon was to shut up the Exchequer.

16. Charles seemed to be most at home in the lowest depth of iniquity. With the treaty of Dover in one pocket, he professed a warm zeal for the protestant religion; with his proclamation of 1667 in the other, he seized upon the bankers' money in the Exchequer. When he had performed the splendid feat of duping his parliament out of £800,000, for the purpose of cutting the throats of the very people to whom they were most attached, it was but sorry game to plunder a few bankers. Nevertheless, the king was so delighted with the peculiar perfidy of the transaction, that to the promised reward of the treasurer's staff, he superadded an ignominious peerage. On the 2nd of January, 1672, appeared a proclamation, stating that the payments out of the Exchequer should be suspended for one year; but interest at the rate of 6 per cent. was promised. The king seized £1,328,526; of this sum £416,725 belonged to Sir Robert Vyner alone.

17. The bankers, it is true, were not many, but the money they had, belonged in great part to their customers, and these were 10,000.* The *coup de finance* was so cleverly done that no one had the slightest warning. The consternation was dreadful in the city. Numberless merchants were ruined. The distress was felt through all ranks of society. Widows and orphans who had no other means of investment, had lent their all to the bankers. It was at first promised that the suspension should only be for a year; but year after year passed

* Howell's State Trials. Case of the Bankers. Vol. XIX. p. 3.

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away, and neither the principal nor the interest was paid. But the intensity of the public suffering was too great, and the public indignation was too fierce to be neglected. What seems to be a most extraordinary circumstance is, that although so many persons of influence must have been injured by the transaction, there was no notice of it taken in parliament. At length, in April, 1676, the king was obliged to order the accounts of the creditors to be examined by the Chancellor of the Exchequer. This having been done, in April, 1677, the king issued letters patent, granting to each of the goldsmiths, their heirs and assigns, and for the benefit of their creditors, in lieu and satisfaction of their debts, a yearly rent, part of the hereditary excise, equal to 6 per cent. upon the debt, with a clause of redemption, upon the king paying the principal and arrears of interest. These letters were printed and made public on the 23rd of May, 1677, and a bill to ratify them was passed by the House of Lords, on the 10th July, 1678, but unfortunately was not presented to the Commons before the end of the session, and never became law.

18. The interest continued to be paid till Ladyday, 1683, when it ceased. Those were times of fiery trial. The recoil of the crimes and cruelty of the popish plot had struck down the fomentors of that horrible delusion. The blood of the hostile parties alternately flowed like water from the scaffold. The royalists had obtained the undisputed ascendancy, and payment of the interest due to the bankers immediately ceased. None was paid during the reign of James II. At length, in 1689, when the creditors were worn out with despair, some of them determined to petition the Court of Exchequer to make an order for payment of their claims. The crown determined to resist payment, and the case was argued at great

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length; two years were occupied in the arguments and the deliberations of the judges. At length, in 1691, the court gave judgment in favor of the petitioners, and made an order on the exchequer for payment. The court appealed to the Exchequer Chamber. At that time the Lord Chancellor, or the Keeper of the Great Seal, sat in the Exchequer Chamber, and was accustomed to receive the assistance of all the Common Law judges. Lord Somers was Keeper of the Great Seal. In 1697 the case was argued before the whole of the judges. There were two points to be decided. 1. Whether the letters patent were good and valid to bind the crown. 2. Whether the remedy taken by the petitioners was the proper one, and if it was in the power of the Court of Exchequer to order payment from the treasury of the sums due to the claimants. On the first point the Common Law judges unanimously held that the letters patent were good and valid to bind the crown. On the second point they all, with one exception, held that the petitioners had adopted the proper course in petitioning the Exchequer, and that that court had power to order payment. The Chief Justice of the Common Pleas alone held that they had not adopted the right remedy, that the Court of Exchequer had no power to order payments out of the treasury, and that the claimants ought to have petitioned the king himself. The assistant judges having thus all delivered their opinions, the case remained for the final judgment of Lord Somers. It is one of the most famous cases in Westminster Hall. The lord keeper is said to have expended several hundred pounds in collecting books and pamphlets for his judgment. He carefully abstained from pronouncing any opinion as to whether the grant was good, and bound the crown; but after going over all the precedents with extraordinary care and minuteness, and

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reviewing the history and powers of the Court of Exchequer, he held that the petitioners had adopted a wrong remedy, and that the court had no power to order payment as it had done. It was doubtful whether the Keeper of the Great Seal had power to give the judgment of the court against the opinion of the majority of the assisting judges. Three judges held that he had not this power, but seven held that he had; he accordingly reversed the judgment of the Court of Exchequer.

19. Under such circumstances it was scandalous and disgraceful in the crown to contest the matter any longer. Every one affirmed the justice of the case, the objection was purely technical. The claimants appealed to the House of Lords; the crown persisted in a strenuous and disgraceful opposition, but on the 23rd January, 1700, the Lords finally gave judgment in favour of the bankers and reversed the judgment of Lord Somers. One would have thought that after such aggravated wrong and injustice parliament would have hastened to repair the injury done to these unfortunate men. But the strangest part of the case is yet to come. The judgment of the court clearly established their right to all arrears of interest, but they were not paid one farthing of it. An act was passed in 1700 that after the 26th December, 1701, the hereditary excise should be charged with interest at the rate of 3 per cent. on the principal, until payment was made of one half of the debt. Thus ended this monstrous iniquity. The principal never was repaid, but was afterwards consolidated with the South Sea Annuities and still forms part of the National debt. It has been calculated that the loss to the bankers and their creditors, from arrears of interest and retention of the principal, was nearly three millions, to say nothing of the frightful expenses of such protracted litigation. Under these circum-

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stances we must protest against the language of the greatest historian of the age, "since the victory won by the court over the Whigs, not a farthing had been paid, *and no redress was granted to the sufferers till a new dynasty had established a new system.*"* The innuendo in this sentence is absolutely erroneous. The new dynasty fought the case, and resisted the claim for eleven years in every court, and when beaten at last, robbed the unfortunate claimants of five-sixths of their just debts.

20. Notwithstanding the political agitation of the period, and the vice and extravagance of the court, the nation, from the sheer force of its energy, continued to thrive and progress as soon as it attained a tolerably settled condition, but the want of an adequate supply of circulating medium was felt severely to cramp the operations of trade, and many persons who understood the great benefits which foreign countries derived from the establishment of banks, attempted to induce the government to erect similar institutions. A great number of projects were started in print, some of particularly magnificent dimensions, but as none of them came to anything we need not be delayed by them further.†

21. The troubled but glorious era of 1688, not only destroyed public credit but, as was natural, diminished the productiveness of the taxes, and the new government were obliged to purchase popularity by abolishing the hearth

* Macaulay—History of England. Vol I. page 288.

† One of them entitled "Proposals to the King and Parliament for a large Model of a Bank," 1678, proposed to divide the country into a number of "provinces," in each of which to have a government bank to receive all the specie and issue paper against it. It anticipated Law in many of his ideas, but fortunately it came to nothing, though there are many shrewd observations in the pamphlet.

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tax. The tonnage and poundage, which in the reign of James II. produced £600,000, fell in 1693, to £286,687, and notwithstanding some additional taxes were laid on, the whole revenue in 1693, was £1,510,318. Such an income was wholly inadequate to sustain the feeble and unsettled government, and the most extensive frauds and robberies prevailed among the public officers. Some of these frauds were brought to light, and the offenders punished, but though commissioners were appointed for the purpose of discovering the defaulters, the Commons resolved in 1701, "That it was notorious that many millions of money had been given to his Majesty for the service of the public which remain yet unaccounted for."* It was alleged that in five years the almost incredible sum of nearly eleven millions was thus embezzled.

22. The chief object which tempted William's ambition to obtain the crown of England, was to head the great European alliance against the overwhelming power of France. No sooner was the king pretty firm on his throne than he persuaded the parliament to declare war against their ancient enemies. The parliament was eager for the war, and readily voted supplies, but they were scarce and difficult to be got. The government at first attempted to persevere in the old plan of mortgaging the grants to be voted by parliament. Their attempts, however, were not very successful, and in 1690, parliament began the system of allowing money to be raised on short annuities, which was attended with good success. The increasing expenses of the war, however, rendered this plan too burdensome, and in 1692, a plan was brought forward for raising duties for the space of 99 years, to pay the interest of an intended loan of £1,000,000 upon a tontine scheme. The subscribers were to receive

* Sinclair's Hist. of the Revenue. Vol. 1. p. 410.

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10 per cent. till 1700, and after that, £7000 per annum was to be divided among the survivors till their number was reduced to seven, when, upon the death of each, his annuity was to lapse to the crown.* So low was the credit of the government that only £108,100 was obtained on these tempting terms, and a clause was introduced by which the subscribers might obtain 14 per cent. upon any life they chose to nominate. But even these two schemes produced only £881,493.

23. All these devices, however, failed in producing an adequate supply of money to support the war, which languished in consequence. The fatal proceedings of Charles II. seemed to have ruined the bankers, or, at least, to have deterred them from making advances to government in their former style. The government were obliged to revert to the humiliating plan of borrowing from every one in the city they could. They were obliged to solicit the Common Council of London for so small a sum as £100,000, and if they granted it, the Councilmen had to make humble suit to the inhabitants of their respective wards, going from house to house for contributions, and for these advances they had to pay in premiums, discount, and commission, from 30 to 40 per cent.

24. The unhappy bankers, and their assigns, had, in despair of having their rights acknowledged by the crown voluntarily, been driven into a court of law. Some of them, however, endeavoured to come to an agreement with the crown. When it tried to raise money by way of perpetual annuities in 1691, they thought that they might make terms for themselves. On the 18th January, 1692, their proposal was submitted to the House. They said that whereas the debt due to the bankers and their

* Grellier's Hist. of the National Debts, p. 26.

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assigns, was above £1,340,000 principal, with 8¾ years' arrears of interest, at 6 per cent. at Christmas, 1691, they proposed to forego all arrears of interest, and to advance a sum equal to their principal, on condition that interest at the rate of 6 per cent. should be secured to them by Act of Parliament.* This proposal was subscribed by six or seven gentlemen whose principal money amounted to £29,378; several members of the House whose principal was £5,400, immediately declared their willingness to accept the same proposals. They believed that most of the others interested would come into the same arrangement. After a few days' delay, persons whose principal amounted to £39,775, came in to the proposal. Those who agreed to these proposals were chiefly the assigns of the bankers and their creditors. The bankers themselves declined to join in the arrangement, for fear it might prejudice their case in the Exchequer. When the committee who brought up this report to the House first met, a proposal was made to them, that certain parties were ready to subscribe a million, on condition of receiving £65,000 a year, of which £5,000 was to be for management, and the rest for interest, and that their bills of property or stock should have a forced currency, or be made legal tender, in which case they offered to advance £200,000 in cash, to be ready as a bank to exchange such current bills as should be demanded of them, to give them credit, and support their circulation, and that they should receive 5 per cent. on that sum. This scheme was devised by Mr. William Paterson, and supported by several wealthy merchants in the city.† The committee declined to receive the proposal for giving a forced currency to this stock, but they

* Commons Journals. 18th January, 169½. Vol. X. p. 631.

† Com. Journals, X. p. 632.

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were quite willing to receive such a plan, and make the stock transferable at pleasure. The proposal broke off upon this difference. Paterson and some of his friends were willing to waive the forced currency of the stock, but nothing came of it. Such was the first effort of Paterson to found a National Bank. After this failure, no further proposal was made till the beginning of 1694, when the increasing public necessities made the ministry attempt to start another such project. They sent for Paterson, and requested him to organize another plan. His second project was to raise a capital of £2,000,000 at 7 per cent. interest. His influence obtained forty men to subscribe £5,000 each, as a fund to circulate £1,000,000 at 8 per cent. The lords of the treasury, however, who were accustomed to allow 40 per cent. discount on tallies at 8 per cent. interest, which had but four or five years to run, could not be persuaded that persons would subscribe at par, to a fund which had no positive determination.* This plan underwent several modifications, but they all failed, and a lottery was started to supply the deficiency, which was equally abortive. Not discouraged by the failure of all these attempts, he persevered and formed another project, which was to raise and circulate £1,200,000 upon a fund of £100,000 a year. Some party jealousy came at the opportune moment to assist Paterson. Mr. Michael Godfrey, brother to Sir Edmunbury Godfrey, and some persons who were nettled with some transactions with the East India Company, now took Paterson up, and in effect supplanted him; for though he continued to advise and assist in the direction of the measure, Godfrey stood foremost in it, and was considered both by the ministers and the parliament as the efficient man, on

* Ralph's Hist. of England. Vol. II. p. 478.

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whom all depended, and to whom all acknowledgments were to be paid.*

25. This scheme at last succeeded; after the details had been settled in concert with the ministers, it was brought before the privy council, and long and anxiously discussed in the presence of the queen, and at last the Statute 1694, c. 20 was passed, by which the Bank of England was established.

26. Few things can be more surprising than that a system which had been in operation for centuries in Italy, and which had conduced so much to the stability, nay, almost to the existence of several of the Italian governments, had not been thought of in England before this time. Such, however, was the case. Before the Bank of England there is no instance of any but a commercial state having adopted such a measure. Perhaps it was, that in no state but a commercial one, was there to be found such a degree of monetary honor, as to induce people to lend their funds upon perpetual annuities upon the security of the royal word. The debt created by the establishment of the Bank of England was the first attempt in England to raise money by way of perpetual annuities, and it did not take place until the chief power in the state had finally passed away from the crown to the parliament. Only thirteen years after the revolution the king, in his speech to parliament 30th December, 1701, presses the House of Commons to take care of the public credit, "which" he says, "cannot be preserved but by keeping sacred that maxim, that they shall never be losers who trust to a parliamentary security." How different from the sentiments of preceding monarchs!

27. The act incorporating the Bank of England

* Ralph. Vol. II. p. 479.

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received the royal assent on the 25th April, 1694,* and the chief provisions in it are as follows:—

1. After providing for raising certain taxes mentioned in the Act, it directed that the sum of £100,000 a year should be appropriated to the encouragement of persons making a voluntary loan of £1,200,000 for the purpose of carrying on the war with France, in the following manner.

2. The crown might appoint commissioners to receive subscriptions for the sum of £1,200,000 before the 1st August, 1694, from any persons, native or foreign, bodies politic or corporate, to be paid into the Exchequer, and the said sum of £100,000 per annum was set apart to be paid to the use of the subscribers, their heirs, successors, or assigns.

3. The crown was empowered to authorize by Letters Patent the subscribers to the loan to assign and transfer their stock and interest, and to prescribe the manner of doing so, and to erect them into a corporation, to be called the Governor and Company of the Bank of England, with all the usual privileges of a corporation, together with the power to acquire and hold lands, rents, tenements, and hereditaments of all descriptions, in as full a manner as any private individual, subject to a proviso of redemption.

4. That in case the whole sum of £1,200,000 should not be paid into the Exchequer by the 1st January, 1695, then the payment to the subscribers should only be at the rate of 8 per cent. on the sum advanced; and that at any time after the 1st August, 1705, upon parliament giving twelve months' notice, and repaying the whole of the debt due, the Corporation should cease and determine.

5. No single person was to subscribe more than £20,000, and one-fourth was to be paid down at the time of subscription, and the remainder before the 1st January, 1695; in case of non-payment of the remainder, the first instalment to be forfeited to the crown.

6. Unless at least one-half the capital was subscribed before the 1st of August, the subscribers were not to be made a corporation, but those who had subscribed might transfer their stock and annuities as individual creditors of the crown.

7. The corporation was strictly forbidden to borrow or give

* Stat. 1694, c. 20.

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security by bill, bond, covenant, or agreement under their Common Seal, for any sums exceeding £1,200,000, except they were allowed to do so by Act of Parliament. In case they exceeded this limit, the proprietors were to be liable in their private capacities.

8. The corporation were allowed to deal in bills of exchange, to buy or sell bullion, gold, and silver, to lend money on the security of goods and wares, and merchandize, and if the loan was not repaid within three months of the time agreed upon, to sell such goods; and to sell goods, the produce of their own lands.

9. But they were strictly forbidden, either directly or indirectly, to deal or trade, or to permit any one on their behalf to deal or trade with any of the money, stock, or effects of the corporation, in buying or selling any goods, wares, or merchandize, under the penalty of forfeiting treble the value of the goods to any common informer.

10. All the bills obligatory, and of credit, under the seal of the corporation made or given to any person, might by indorsement of such person, be freely assigned to any person who should voluntarily accept them, and so by such assignees *toties quoties*, by indorsement thereon, and all such assignees might sue therein in their own names.

11. That if the corporation should purchase any crown lands, or advance any money to the crown whatever, except by the special permission of parliament, they should forfeit treble the value of all such advances, one-fifth to any common informer, and the remainder to the public.

12. All fines, amerciaments, and judgments received against the corporation might be paid by the officers of the revenue, out of the annuity of £100,000.

In pursuance of this Act, a commission to receive subscriptions was nominated on the 15th of June, the whole stock was subscribed for in 10 days, and the charter of Incorporation was issued on the 27th July.

28. This great experiment was regarded with some doubt and misgiving even by its zealous supporters, they feared it could hardly be successful with so moderate an

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interest as 8 per cent. But several very numerous classes of people regarded it with the utmost detestation. The usurers, whose inordinate gains were checked, were filled with rage. Some said that it would become a gigantic monopoly, engross all the money in the kingdom to itself, and combine with the king to set up a despotism. Some inveighed against its granting interest, which they said would draw money away from trade, not perceiving in the blindness of their passion that if the Bank allowed interest to its customers, it must advance money to traders to make it. Some became extremely zealous for the morals of the nation, which were to be placed in eminent peril by the new bank. Some pretended to dislike it for fear it should disappoint the king in the expected supplies. The domestic enemies of the government were furious against it, because they saw how enormously it would strengthen the new dynasty.

29. The immense benefit which accrued to the State by the establishment of the Bank, was shewn by the increased vigor with which the war was carried on. The army assumed the offensive, and in July 1695, the king undertook the seige of Namur. At this time Mr. Michael Godfrey, the Deputy Governor of the Bank, went over to Namur to arrange with the king as to the manner in which the money for the use of the army should be remitted. In the last days of July he ventured too near the town to speak to the king during a heavy cannonade, and was killed at his side. Previously to this he had published a pamphlet on the subject of the Bank, which is of great historical importance with regard to the currency.* It is written in a strain of the warmest congratulation upon the great success of the experiment, which he had taken

* A short Account of the Bank of England. Printed in the Somers collection. Vol. XI. p. 1.

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so leading a part in forwarding. He states that whereas in the beginning of 1694, the government tallies were at a discount of £25 to £30 per cent. in addition to the public interest, the Bank took them at par, and from the former heavy discount they had risen to a premium, so that they were then better than money, because there was 7 or 8 per cent. per annum benefit while they were kept, which never could have been done without the Bank. He said that those who lodged their money at the Bank had it as much at their disposal as if it were in the hands of the goldsmiths, or in their cash chest, and he certainly countenances an accusation which is constantly brought against the goldsmiths in contemporary pamphlets, for he says that if the money which had been lodged with them for four or five years past had been deposited in the Bank, it would have prevented it from being so scandalously clipt, which he predicts would cost the nation some day a million and a half or two millions to repair. He notes it as very surprising and quite unexampled that after the nation had been at war for six years and had spent £30,000,000, besides great quantities of bullion being exported and captured by the enemy, that there had been so great a fall in the rate of interest instead of a rise as in all previous wars, which was entirely due to the Bank, and he predicted that it would, in the course of a few years, reduce it permanently to 3 per cent. He says that within 30 years of that time, the public had lost between two and three millions by the goldsmiths and scriveners breaking, which would not have happened if the Bank had been established. He says that there were some who were for having a forced currency of bills or tallies, thinking that they might pass as well as bank bills, *but they do not consider that it is nothing makes bank bills current, but only because all those who desire it can go when they*

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will and fetch their money for them; and to force anything to pass in payment but money would soon end in confusion. He then enters into numerous arguments to shew that any attempt at a forced currency would only end in damaging the public credit. He says that the chief reason of the indignation of the goldsmiths at the Bank was that they allowed 2d. per cent. per diem on their bank bills, which drew away customers from them. He says that the interest allowed to the holders of their bills amounted to £36,000 per annum.

30. The year 1694 is remarkable as the one in which the first of those speculative manias occurred, which have on different subsequent occasions seized upon the nation. All the tricks, all the rogueries which have been so familiar in the joint stock bubbles of later years, were rife at that time, but it is remarkable that while, in latter times, these things have always sprung up when there was a greater abundance of capital than usual, in time of peace, this was at a time when a costly war had been raging for several years, and there was a great dearth of specie.

31. We have already in the chapter on Currency in the first volume* noticed the extremely degraded state of the coinage at this period. It kept continually getting worse during 1694, and it is said that at the end of that year, the difficulty lay so heavy upon the government, that a stop was almost put to trade and taxes, and the cure of it could no longer be delayed, without apparent and inevitable ruin to the public, and an obstruction to all private commerce.† A committee of the House of Commons was appointed, and having made a report, an Act was passed, and received the royal assent on the

* Vol. I. p. 157. † Parl. Hist. Vol. V. p. 955.

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3rd May, 1695, to prevent counterfeiting and clipping the coin of the kingdom. This statute averred that it was notorious that the current coin had been greatly diminished by clipping, rounding, filing, and melting, and that many false and counterfeit coins had been clipped, for the better disguising thereof, and that these practices had been much occasioned by those who drove a trade of exchanging broad money for clipped money, and other arts and devices. It therefore prohibited any person from exchanging, lending, selling, borrowing, buying, receiving, or paying any broad or unclipped silver money for more in tale, benefit, profit, or advantage than the same was coined for, and ought by law to pass for, under a penalty of 10s. for every 20s. so illegally trafficked with. It also enacted that whoever should buy or sell, or knowingly have in his possession any clippings or filings of the coin, should forfeit them, as well as a penalty of £500, and be branded on the right cheek with a hot iron. It forbade any one but a trading goldsmith or refiner of silver, to buy or sell bullion, under pain of imprisonment, and enacted numerous other vexatious penalties and regulations respecting the export of bullion.* All these absurd cruelties were wholly ineffectual, and at this time, guineas, which had originally been coined to represent 20s. and had progressively risen, as the silver coin became worse, were current at 30s. of the base trash which passed by the name of silver coin.

32. We shall find that it is of very great importance to fix the exact period when the silver coin was so depreciated, as that guineas passed at 30s. We shall, therefore, make some extracts from cotemporary pamphlets.

* Statute 1695, c. 17.

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It says in one published in 1695, after speaking of the gradual deterioration of the coinage,*—

"And so by degrees as the silver coin was diminished and debased in itself, so it fell in the estimation of the people, and in proportion gold advanced, and also bullion, (that is not in itself, but in proportion to the bad money) not that bullion became worth 6s. 5d. an ounce, or GOLD 30s. A GUINEA in good money, that is, in weighty standard money, but in clipped and counterfeit money, whereof 6s. 5d. was not of the true nor esteemed value of 5s. 2d. And as we ourselves grew sensible of the want of value in money that passed, so did Foreigners likewise, AND THE FOREIGN EXCHANGES SOON ALTERED ACCORDINGLY, so that it cannot properly be said that bullion is advanced much, or that gold is advanced much, or commodities are advanced much, *but that the money that is exchanged for them is of much less value than it was*, and the new coining of our money will not as I apprehend alter the value of bullion, gold, &c., but it will bring silver in coin to its due value."

After enforcing and illustrating these views at considerable length, he observes that Mr. Lowndes hoped that the exchange with Holland, which was then 25 per cent. against England, might be prevented falling lower, and says, page 16,—

"If guineas CONTINUE CURRENT AT 30s. A PIECE, the exchange will continue about the rate it does, except the common and ordinary variation, which many sudden drafts and remittances occasion; *and if guineas fall, the exchange will rise in proportion*; AND IF THE SILVER COIN IS REDRESSED, GUINEAS WILL FALL, and there are no other designs whatsoever can effect any considerable alteration, for English standard silver and standard gold will always be of the same value in Holland, as the same standard silver and gold in England, within 2, 3, 4 to 6 per cent. or thereabouts, and that difference happens according to present occasions, and the charge of

* Some Remarks on a Report containing an Essay for the Amendment of the Silver Coins by Mr. W. Lowndes. London, 1695. Page 6.

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sending it from one place to another, and the exchange to Holland and other places always govern accordingly."

Again, page 19.—

"It is not the exportation of the silver which occasioned the fall in the exchange between Holland and here, but the reason of that *is the badness of our silver coin.*"

Again, page 20.—

"THE BALANCE OF TRADE IS NOT THE CAUSE OF THE GREAT FALL OF THE EXCHANGE FOR HOLLAND, BUT THE DEBASING OF OUR COIN."

And he repeatedly declares, that the only way to set matters right was to reform the coinage. He also says that it was his opinion that it was not to the advantage of the kingdom to restrain the exportation of bullion, or indeed of money itself, to any certain quantity, but to let it be entirely free.

33. We have already seen from the pamphlet of Mr. Godfrey that, in the spring of 1695, the bank was in high credit, his pamphlet is nothing but a strain of congratulation on the great success that had attended the experiment. Burnet* also tells us that a party in the country who were moved with great jealousy, formed a design to ruin it on account of its flourishing credit. They tried what could be done to shake its credit, but this attempt was rejected with indignation by both houses. He also tells us at the same period,† that there were two sets of coin, one milled, which could not be practised upon, the other not so, which was clipt, and so much so that at last it was diminished to less than half its proper

* Hist. of his own Times. Vol. IV. p. 252. Oxford Edit. 1823.

‡ Ibid, p. 246-7.

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weight. When this had gone on for some time, the king was advised to issue a proclamation to make it current by weight and not by tale, but it was strongly opposed in the council. The badness of the money then was very visible, guineas which were equal in value to 21s. 6d. in silver rose to 30s., that is to say, 30s. sank to 21s. 6d. The deterioration became still worse, and later in the summer Lord Somers again proposed in the council that a proclamation should be issued to make coin current by weight and not by tale. The king was also of that opinion, but the rest of the council were unanimously against it; "and so" says Burnet, "this proposition was laid aside, which would have saved the nation above a million of money. For now all people believed that the parliament would receive the clipt money in its tale, clipping went on and became more visibly scandalous than ever it had been."*

34. And so it went on till parliament met in November, 1695. The urgency of the evil caused the subject to be taken up the very first thing by parliament, and the Commons addressed the crown to issue a proclamation to name a day when the currency of the clipped money should absolutely cease. A proclamation to that effect was accordingly issued on the 19th December,† but the time named in it was so short, that it threw all trade into the utmost confusion. People refused to receive the old money for fear it should be left on their hands. Evelyn‡ has the following entries in his diary—"12 Jan. 1695-6. Great confusion and distraction by reason of the clipped money, and the difficulty found in reforming it. 23rd Jan.—They now began to coin new money."

* Hist. of his own Times. Vol. IV. p. 258.

† Parl. Hist. Vol. V. p. 972. ‡ Vol. III. Edit. 1827.

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35. The subject then of reducing guineas to their original value was taken into consideration. A committee was appointed to take into consideration the price of guineas on the 13th February, 1696. Several petitions were presented on the subject.* The graziers, butchers, and others connected with Smithfield market, said that £40,000 a week passed through their hands for cattle, which for almost twelve months past had been paid in guineas, at 30s. a piece, for want of current silver, a great part of which they had still, and were obliged to keep by them to trade with, and they said that a sudden fall would ruin them. The merchants, woollen drapers, and other traders stated in their petition that commerce was brought to a stand, by reason of the uncertain value of gold. They thought that a gradual lowering of guineas, from time to time, would be the only effectual means to remedy the evil, and prevent the loss from being more severe if they were lowered at once. A third petition from divers merchants and others, said †—

"That by reason of the badness of our silver coin, some men have taken occasion to raise guineas to 30s. a piece, which being about 40 per cent. value here, above the proportion of gold to silver in any other part of Europe, hath caused the bringing over to us vast quantities of gold, causing the exchange to fall, and consequently the carrying out of our silver in that disadvantageous proportion, to the impoverishing the kingdom. That notwithstanding the care taken to reform the silver coins, yet certain persons continue buying and selling guineas, being employed therein, as they believe, by persons promoting their private gain, whereby they are still kept up to 29s. and 30s.; at which rate the petitioners are forced to receive them for debts, but cannot pay them so to the king's receipts, or upon bills of exchange, so that they are necessitated to buy silver money with their guineas, at 3, 4, and 5 per cent. loss,

* Commons Journals. Vol. XI. p. 445. † Ibid, p. 446.

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and thereby contribute to the gain of those persons who keep up that trade. That at this time great quantities of gold are bought up and imported hither from Holland, where four of our milled crowns and two weighty shillings will purchase a guinea, the profit whereby is so great, that if some speedy stop be not put to this pernicious trade, our milled money will be melted down and carried away as fast as it can be coined,"

Other petitions to the same effect, and corroborating these facts, were also presented.

36. It was then carried by a majority of 164 to 129, on the 15th February, 1696,* that guineas should be lowered to 28s.; on the 28th† it was resolved by a majority of 194 to 140, that after the 25th March, they should be reduced to 26s. and on the 10th April to 22s., and heavy penalties were enacted against all who should deal in them at any other rate, after that date. It was further ordered that the clipt money should be received in payment of taxes till the 4th May, in advances to government till the 1st July, and after the 1st February, 1697, should absolutely cease to be current. At this time, although both gold and silver were legal tender, yet the silver coin was considered as the standard currency, and gold only subsidiary. Debts were considered to be contracted in silver, and when this great disarrangement of the relative value of the gold and silver took place, it was considered as a great public grievance. All the heavier pieces were culled out, and sent to Holland, where guineas and bullion might be bought for 22s. which passed for 30s. in England, the consequence was a steady drain of silver from England, and a continued influx of gold. The Act of Charles II. gave every one the right to have his bullion coined at the Mint free of expence, and many persons had availed themselves of this privilege.

* Com. Journals. Vol. XI. p. 449. † Ibid, p. 476.

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By a return presented to the Commons, it appeared that since Lady-day, 1695, up to Feb. 1696, guineas to the amount of £721,280 had been coined for 149 persons.* An Act was passed to take off this privilege, and to prohibit the importation of guineas and half guineas. Statute 1696, c. 13.

37. All this time the Bank of England had received the degraded coin at its nominal value. Its notes were payable to bearer on demand. As soon as the new coin came out they were bound to pay them in full-weighted coin, that is, for every 7 ounces they had received, they were bound to give 12. Such a state of things could have but one result,—an immediate run upon them took place. They of course were unable to provide coin, and on the 6th May, 1696, they were obliged to adopt a partial suspension of payments. They gave notice that they could only pay 10 per cent. on their notes once a fortnight, and as the demand continued, they were unable to preserve even that payment, and a short time later they were obliged to make a still further suspension, by paying 3 per cent. every three months.

38. The following extracts from Evelyn's Diary are interesting and important.

"13th May, 1696. Money still continuing exceedingly scarce so that none was paid or received, but all was on trust, the Mint not supplying for common necessities.

"11th June. Want of current money to carry on the smallest concerns, even for daily provisions in the markets. Guineas lowered to 22s. and great sums daily transported to Holland, where it yields more, and other treasure sent to pay the armies, and nothing considerable coined of the new, and now only current stamp, cause such a scarcity that tumults are every day feared, nobody paying or receiving money. Banks and lotteries every day set up.

* Commons Journals. Vol. XI. p. 445.

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"26th July. So little money in the nation that Exchequer tallies on the best fund in England, the Post Office, nobody would take at 30 per cent. discount.

"3rd August. The Bank lending the £200,000 to pay the army in Flanders, that done, nothing against the enemy had so exhausted the treasure of the nation, that one could not have borrowed money, under 14 or 15 per cent. on Bills (*i.e.* Bank of England Bills), or on Exchequer tallies under 30 per cent."

39. We have in our possession a rare pamphlet which has the unusual and fortunate circumstance of bearing on it the day of its publication. It is entitled "An Essay on the Coin and Credit of England as they stand with respect to its Trade; by John Cary, Merchant in Bristol.—Bristol, printed by Will. Benny, and sold by the Booksellers of London and Bristol. October the 22nd, 1696." It would have been fortunate if other pamphleteers had displayed equal forethought for the benefit of posterity when exact dates are of such importance. This pamphlet contains statements of fact, of the first importance in the theory of the currency. It says, p. 13,—

"When our coin was corrupt and base all Exchange rose upon us, but now it is returned to its ancient standard, EXCHANGE RETURNS TO ITS OLD COURSE; not that the standard of our money is always the exact rule of our exchange, the balance of our trade often causes it to alter, either to our advantage, or to our loss, besides the charge of management, but this is little in comparison with the other. A familiar instance we have in the case of Ireland, *where whilst our coin was base* seventy pounds was worth one hundred pounds here, which was in some measure proportionable with the value of pieces of Eight, which they took in Ireland by weight, to our clipt money, and also to our guineas at 30s. a piece, and how far this carried the trade of England into that Kingdom, the traders to the West Indies have been too sensible, *but since the error of our coin hath been corrected that very Exchange is so much varied*, that one hundred pounds here is worth one hundred and fifteen pounds there.

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"And since I have mentioned guineas, I cannot let them pass without some observations. How eager was the contest for keeping them up to that exorbitant value! and how unwillingly did the money changers, and those whom they had deceived, yield to the alteration! *Whereas it was well known that the reason why guineas were so high was the badness of our coin.*"

This is a conspicuous and decisive instance of the truth of the principles in the chapter on Exchanges, that a restoration of the coinage is alone sufficient to bring the exchanges nearly to par. We then observe that although at that time the coin was very scarce, yet the mere fact of the restoration of its *quality* had brought the exchanges to par in October 1696. We must now inquire what the state of *Credit* was at that time, or the price of Bank notes and Exchequer tallies.

40. The Bank of England was a Whig project, and had been eminently successful in supporting the government in the prosecution of the war. It had excited the warmest feelings of joy and congratulations among its friends, and the bitterest feelings of rage and indignation among its enemies and the enemies of the government. It was not endowed with any monopoly in its favor at that time. The government of William was composed of a mixture of Whigs and Tories. The Tories determined to get up a rival bank on a much larger scale. The capital was to be £2,564,000 advanced to government, on the same principle as that of the Bank of England, but its trading capital, notes, &c., were to be advanced solely to landowners for the cultivation of the land at 3 per cent. It was therefore called a Land Bank. It was warmly patronized by the Tory party. The origin of it is variously ascribed to a Mr. Brisco, and to Dr. Hugh Chamberlain.* The

* This was not the first project of Dr. Hugh Chamberlain. On the 7th December, 1693, he and others presented a petition to the

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Bank of England and all its friends of course opposed it with all the power they could, but the temptation was too great, and it was sanctioned by Act of Parliament* in April 1696. The time for taking subscriptions was limited, in the like manner as had been done in the case of the Bank of England. When the subscriptions opened, the lords of the treasury subscribed £5,000 on behalf of the king, but the other subscriptions amounted only to £2,100 when the time came for its closing.† It was therefore a total and complete failure. The finances of the State were in the utmost disorder, great arrears were due to every branch of the public service, some funds where wholly deficient, others produced much less than was calculated. In the next session of parliament the amount of arrears was ordered to be laid before them, and it amounted to the frightful sum of £6,000,459—more than all the current coin in the kingdom was supposed to be. Under these circumstances, when parliament met in October 1696, Bank notes were at a discount of 20 per cent. and Exchequer tallies at 40, 50, and 60 per cent.‡ at the same time that the exchanges were restored to par.

House of Commons, praying for leave to establish, by virtue of an Act of Parliament, a Bank of Credit upon land, for raising a stock to establish a general fishery, which they alleged would be more advantageous to the nation than importing so many millions of gold and silver, and offering, as an inducement, that a considerable portion of the Stock should be set apart every year for the support of the war.—*(Com. Journ.* Vol. XI. p. 22.) This petition was referred to a Committee, who, on the 5th of February, 1694, reported that the scheme was practicable, and likely to be beneficial to the nation. Notwithstanding this favourable report, the plan fortunately went no further, but is remarkable as the germ of what afterwards developed itself into the fatal South Sea Bubble.

* The proposed constitution of this Land Bank is given in the Somers Tracts. Vol XI. p. 16. † Ralph's Hist. of England. Vol. II. p. 658.

‡ Drake's Short History of the last Parliament, 1699. In the Somers Collection. Vol. XI.

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Every one foreboded the total ruin of public credit. The enemies of England rejoiced, and believed that it was utterly irretrievable, and that the great European alliance against France would be dissolved.

41. Under these depressing circumstances parliament met on the 20th October, 1696. The king congratulated the House on the year having passed away without any disorder, considering the great disappointment in the funds voted at their last meeting, and the difficulties which had arisen from the re-coining of the money; he begged them to find out some expedient for the recovery of credit, which was absolutely necessary not only with respect to the war, but for carrying on trade.* The Commons responded with noble alacrity to the desires of the king; they immediately passed a vote, that they would not alter the standard of the gold and silver, in fineness, weight, or denomination, and that they would make good all the deficiencies on the funds.† They also repealed the Bill for preventing the coining and importation of guineas, as it had only aggravated the public disorders.

42. When the Bank of England was subjected to the mortification of declaring a partial suspension of payments, it endeavoured to retrieve its credit by making two calls of 20 per cent. each upon its proprietors, the second of which was payable on the 20th November. These measures, however, did not effect their purpose, and the parliament had to take in hand the great business of restoring the credit of the Bank notes and the Exchequer tallies. On the 3rd February, 1697, parliament agreed to increase the capital stock of the Bank, by receiving new subscriptions, which were to be made good on tallies and bank notes. It passed an Act for this purpose,

* Parl. Hist. Vol. V. 995. † Parl. Hist. Vol. V. 997.

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Statute 1697, c. 20. The chief provisions were as follows:—

1. All persons, natives or foreigners, bodies politic or corporate, might subscribe to the new stock, and the subscriptions might be paid four-fifths in Exchequer tallies, and one-fifth in Bank notes, upon which the crown would allow 8 per cent.

2. Before the 24th July, 1697, the capital stock of the Bank was to be estimated, and made up to 100 per cent.; any deficiency was to be made up rateably by the proprietors, and any overplus to be rateably paid back to them.

3. All such subscribers were to be incorporated with the proprietors of the old stock.

4. The time when the crown might put an end to the corporation was prolonged to twelve months after the 1st August, 1710, and repayment of all parliamentary debts.

5. It was enacted, that during the continuance of the Corporation of the Governor and Company of the Bank of England, no other bank, or any other corporation, society, fellowship, company, or constitution, in the nature of a bank, shall be erected or established, permitted, suffered, countenanced, or allowed by Act of Parliament, within this kingdom.

6. The Bank were allowed to extend their issues of notes beyond the original capital of £1,200,000, to the amount of new capital which should be subscribed, provided that they were made payable to bearer on demand; and in case they made default in such payment, they might be paid on presentment at the Exchequer, out of the annuity due to the Bank. All notes above the sum of £1,200,000 were to bear a distinguishing mark.

7. All the property of the Bank was exempted from taxes.

8. Bank Stock was to be personal property, and not real.

9. It was made felony to forge or counterfeit any bank note, or obligation under the Common Seal, or altering or erasing any indorsement on such a note or bill.

10. Bank Stock exempted from any foreign attachment.

11. The debts of the Corporation forbidden to exceed their capital stock, if they did so the members were to be liable in their private capacity.

12. All persons were forbidden to buy or sell tallies at more

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than the legal rate of interest, under the penalty of forfeiting treble the value of the money.

43. Such were the measures taken to restore the credit of the Bank. The public, however, were still grievously suffering for want of a circulating medium during the slow progress of the re-coinage. The Bank of England did not issue notes below £20, which were of little use for the general purposes of business. The Chancellor of the Exchequer, Montague, hit upon the plan of issuing bills upon the Exchequer for £5 and £10. These bills, at first, passed at a small discount, but upon the second issue of them, £7 12s. interest per cent. was allowed, and they were received in payment of taxes at par.* They soon rose to par. The treasury was authorized to contract with any persons to cash these Exchequer bills on presentment, allowing them a moderate premium. They were allowed 10 per cent. at first, but the Exchequer bills soon rose above par, and then the interest was reduced to 4 per cent. Under this Act, upwards of £2,000,000 of Exchequer bills were issued.

44. The new subscriptions to the Bank, under this Act, amounted to £1,001,171 10s.; two hundred thousand pounds worth of Bank notes, and eight hundred thousand of Exchequer tallies being taken out of circulation, and received at par in the subscription, raised the value of the remainder, and in the course of the year, Bank notes which bore no interest were at par, and the bills which bore interest, were at a premium.†

45. When we consider the unquestionable services the Bank had rendered the government, which contributed so greatly to the success of the war, and the pacification of Ryswick, and when we consider the terrific state of public credit, owing very much to the total

* Life of Lord Halifax, p. 42. † Ib. p. 41.

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failure of the Land Bank, we need not be surprised that the Bank of England employed those circumstances for the purposes of securing a monopoly to themselves. Nor, considering the ideas of that age, can we be surprised that they received it. But, nevertheless, making allowance for all these circumstances, it is one of the most deplorable acts that have come down to our time. The founders and contemporaries of the Bank felt the benefit of its eminent services, but the consequences of this original sin fell with terrific force on their descendants of the third and fourth generation. The frightful convulsions and collapses of public credit which have taken place during the last three quarters of a century, are chiefly due to this great wrong and violation of the true principles of trade. English banking has never recovered its fatal effects to this day, and many years must elapse before it will arrive at the form to which it is gradually tending, and which it would naturally have assumed, if its development had been left free to the skill and experience of men of business.

46. We have felt it necessary to be thus minute and circumstantial in the account of this great monetary crisis, because it is of very great importance in the theory of the currency, and because it has been very prominently noticed in the Bullion Report, and we must now examine the account of it given there.

It says:—*

"The experience of the Bank of England itself, within a very short period of its first establishment, furnishes a very instructive illustration of all the foregoing principles and reasonings. In this instance, the effects of a depreciation of the coin by wear and clipping *were coupled with the effect of an excessive issue of paper.* The directors of the Bank of England did not at once attain a very ac-

* Bullion Report, p. 17. Original Edition.

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curate knowledge of all the principles by which such an institution must be conducted. They lent money, not only by discount, but upon real securities, mortgages, and even pledges of commodities not perishable; at the same time, the Bank contributed most materially to the service of government for the support of the army on the continent. By the liberality of those loans to private individals, as well as by the large advances to government, the quantity of the notes became excessive, their relative value was depreciated, and they fell to a discount of 17 per cent. At this time there appears to have been no failure of the public confidence in the funds of the Bank, for its stock sold for £110 per cent., though only 60 per cent. upon the subscriptions had been paid in. By the conjoint effect of this depreciation of the paper of the Bank from excess, and of the depreciation of the silver coin from wear and clipping, the price of *gold bullion was so much raised that guineas were as high as* 30*s.*, all that remained of good silver gradually disappeared from circulation, and the exchange with Holland. which had been before a little affected by the remittances for the army, sunk as low as 25 per cent. under par, when the Bank notes were at a discount of 17 per cent. Several expedients were tried, both by parliament and the Bank, to force a better silver coin into circulation, and to reduce the price of guineas, but without effect. At length the true remedies were resorted to; first, by a new coinage of silver, which restored that part of the currency to its standard value, though the scarcity of money occasioned by calling in the old coin, brought the Bank into streights, and even for a time affected its credit;* secondly, by taking out of the circulation the excess of Bank notes. In proportion to the amount of notes sunk in this manner, the value of those that remained in circulation began presently to rise; in a short time the notes were at par, and the foreign exchanges nearly so. These details are all very fully mentioned in authentic tracts, published at the time, and the case appears to your committee to afford much instruction upon the subject of their present enquiry."

The Report refers in a marginal note to A Short Account of the Bank, by Mr. Godfrey, and A short History of the last Parliament, 1699, by Dr. Drake.

* Surely, if Bank notes were at a discount of 17 per cent. *before* this, its credit was affected.

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47. On examining this paragraph, it may be said to contain the following allegations:—

1. That very soon after the foundation of the Bank, it made excessive issues of paper.

2. That in consequence of these excessive issues, *and while they continued to pay their notes in specie on demand*, their notes fell to 17 per cent. discount.

3. That in *consequence* of these excessive issues of paper by the Bank, and the depreciation of the silver coin from wear and clipping, guineas rose to 30s. from 21s. 6d., and that the remaining good silver disappeared from circulation.

4. That in consequence of the two preceding causes, exchange with Holland rose to 25 per cent. against England.

5. That many attempts were made by the Bank and parliament to reduce the price of guineas, and force a better silver coinage into circulation, which all failed.

6. That measures were at length resorted to of calling in the old silver coinage, and re-issuing it at full weight, and taking the excessive issue of the Bank out of circulation, which were finally successful, restored the Bank notes to par, and restored the exchanges.

The committee ground their allegations upon Mr. Godfrey's pamphlet on the Bank, and Dr. Drake's History of the last Parliament, 1699, as well as a number of anonymous pamphlets, to which they give us no clue to discover their names.

48. We must now examine each of these propositions separately.

With respect to the first, what is, or what is not an excessive issue, is a matter of so much speculation that it is quite impossible to affirm or deny it.

With respect to the second allegation, there is not only no evidence in its favor in the pamphlets quoted,

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but the most overwhelming evidence against it. Mr. Godfrey's pamphlet was written in 1695, when the credit of the Bank was in the most flourishing condition, when he makes this credit a matter of great boast, and he says that the only reason why the credit of the Bank notes was so good, was that their holders knew that they could get their *money instantly on demand* for them. Mr. Godfrey was killed at Namur, in July, 1695, and Bank notes were not at a discount till May, 1696.

With respect to the third allegation, we have the most positive and overwhelming evidence that guineas were at 30s. in the spring of 1695, when the credit of the Bank was unimpeached, and its notes were all paid instantly on demand.

With respect to the fourth allegation, we have already seen that the exchange on Holland was at 25 per cent. against England in 1695, nearly one year before Bank notes were at a discount.

The fifth allegation is entirely erroneous. Parliament made no attempt to reduce guineas till February 1696, when the silver coin had been already called in.

The commencement of the sixth allegation is quite wrong in point of time. It is an unquestionable fact testified by the most conclusive evidence, that it was the scarcity of money while the old was called in, and before the new was fully in circulation, that caused Bank notes to fall to a discount, and their receiving the old coin at its nominal value, and binding themselves to pay in the new. We have read a considerable number of pamphlets of that period, and they all with one voice attribute the price of guineas, and the adverse state of the exchanges, to the *badness of the coin and to that only*. This Report, then, is not borne out in any of these statements by the authorities they have cited. The only one in which they are correct, is, that the new subscriptions in Bank notes

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and tallies raised their credit, by reducing their quantity, but they have been misled by Dr. Drake in saying that the exchanges began to recover at the same time. Dr. Drake being a clergyman, and writing some years after the event, probably did not have his attention directed to so minute a point as the exact date when the exchanges rose to par, but we have in the pamphlet already quoted, written by a merchant, and dated on the 22nd of October, 1696, the express fact stated *that at that time the exchanges were at par*, in consequence of the good coin which had been issued, whereas bank notes were still at a heavy discount in June, 1697.*

49. We have been thus minute in examining the circumstances of this great monetary crisis because we shall see hereafter that it is of great importance in establishing the true theory of the currency. We have, we think, shewn by the most conclusive evidence, that this paragraph in the Bullion Report is full of the gravest chronological errors, in a matter in which minute accuracy of dates is all important.

50. There was one circumstance which we have not seen noticed by any writer, which we may probably suppose contributed greatly to increase the discount at which the notes were. There were none at that time under £20, and notes of that amount must have been obviously unfit for the ordinary purposes of trade. The great want was small change, but that had almost entirely disappeared, consequently, when the holder of one of these notes wanted change, he must have made a much greater sacrifice than was warranted by any want of confidence in the Bank. Under these circumstances we may be somewhat surprised that no one hit upon a plan which would certainly have been successful, namely, an issue of £1

* Lawson: Francis.

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notes, to have supplied the deficiency until a sufficient quantity of guineas had been coined for circulation.

51. The issue of small exchequer bills was entirely successful, although they had not a forced currency. The great cause of the mischief to the Bank was, that the old and the new coin were allowed to circulate together, which all experience shewed would inevitably drive all the new coin out of circulation. And this is exactly what did happen.

"While the hammered money and pieces not clipped within the ring, were permitted to pass, for the present necessity of trade, nobody was willing to make payments in new money, which so much exceeded the old in its intrinsic worth. And, therefore, the new silver money as fast as it issued from the mints and exchequer, was in a great measure stopped in the hands of its first receivers, for none were disposed to make payments in the new silver coin at the old standard, when they could do it in clipped pieces so much below it. And those who had no payments to make, kept their new money as medals and curiosities in their chests, and there is reason to believe that at first a great quantity of new money, by the help of the melting pot, went abroad in ingots to purchase gold, which at this juncture was a very profitable commodity in England."

52. In this great discussion all the fallacies which are so specious and plausible, and which were maintained with so much earnestness 116 years later, were put forward—except one. The invariable language of all writers at that period was that the bank notes were depreciated. They always speak of the notes *being at a discount*, it was reserved to modern ingenuity to discover the crowning absurdity—that it was not notes that had fallen, but gold that had risen!

53. The Bank was instituted for the purpose of assisting the government in the war with France, and did very materially do so in 1695, when its credit was high. In the next year, however, it continued to do the

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same, when its credit was greatly shaken. This no doubt was of great assistance to the army, and its conduct is highly lauded by Dr. Drake, but some of its own proprietors thought very differently of its management. In a pamphlet which was published by one of them, which bears no date, but which was most probably written in 1697,* which contains a series of excellent rules for the conduct of a bank, the direction is severely censured for dealing in exchanges, for running into remittances, and launching too deeply into loans, to which causes the author attributes the loss of their credit. This would seem to allude to the loan mentioned by Evelyn.

54. The political troubles at the commencement of the next century placed the Bank in difficulties again in 1704 and 1707. In the latter year the revived hopes of the Jacobite faction, roused by the preparations of Louis XIV., threw the country into a panic. The public stocks sunk 14 to 15 per cent. The enemies of the dynasty, and the enemies of the Bank, combined to make a run upon it. The private bankers tried to swamp their great rival, and Sir Francis Child pretended to refuse its notes. These malicious proceedings, however, called forth an equal amount of ardour from the government and its friends. Several of the highest nobility came forward to lend money to the corporation, and the queen lent it her warmest support. The directors made a call of 20 per cent. on their proprietors, and by these means surmounted their difficulties and restored their credit.†

55. In 1709 the government were again in a state

* A Second Part of a Discourse concerning Banks.—For which I am indebted to the kindness of Mr. Bannister, author of the "Life and Writings of William Paterson."

† Francis—Hist. of Bank of England, Vol. I. p. 87.

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of great pecuniary embarrassment. The produce of the taxes scarcely covered one half of the expences.* In this extremity the ministry turned to the Bank of England, and by mutual arrangement the following terms were proposed and accepted by Parliament.

1. That the interest upon their original stock of £1,200,000 be reduced to 6 per cent. with an allowance of £4,000 for managing the debt.

2. That they were to advance a further sum of £400,000 at 6 per cent. interest.

3. That they should be allowed to double their present capital of £2,201,171 10s. at the price of 115 per cent. for the new stock. Upon which they agreed to circulate £2,500,000 of Exchequer bills, and receive an allowance of 6 per cent., one half for interest, and the other for repayment of the principal, and that no more Exchequer bills should be issued without the consent of the Bank.

4. That their privileges as a corporation should be continued for 21 years from 1st August, 1711.

56. The subscription lists for the new stock were opened on the 22nd February, 1709, at nine in the morning, and by one o'clock the whole sum was subscribed at the premium. And a million more might have been subscribed before evening if there had been room.

57. The Act of 1697 had only provided that no other bank should be sanctioned by Act of Parliament; it did not prohibit any private Joint-Stock Bank from being formed, nor any other corporation, or company setting up banking business. A company called the Mine Adventurers of England, at the head of whom was Sir Humphry Mackworth, who turned out to be a great rogue,† commenced doing all kinds of banking business, issuing notes, &c. To put a stop to this it was enacted—

* Parl. Hist. Vol. VI. p. 784. † Ibid, Vol. VI. p. 892.

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"That during the continuance of the said Corporation of the Governor and Company of the Bank of England, it shall not be lawful for any body politic or corporate whatsoever, erected or to be erected, (other than the said Governor and Company of the Bank of England,) or for any other persons whatsoever united or to be united in covenants or partnership, exceeding the number of six persons, in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money on their Bills or Notes payable at demand, or at any less time than six months from the borrowing thereof."

And the Bank were strictly forbidden to issue notes to a larger amount than their capital stock.

58. At that time the practice of issuing notes was considered so essentially the main feature of banking, that a prohibition of that was considered an effectual bar against banking. The clause quoted above was intended to prevent any bank being formed with more than six partners, so as to prevent any private company being formed of sufficient power and influence to rival the Bank. It was so understood at the time, and it did have the effect of preventing any other Joint Stock Bank being formed.

59. The financial difficulties of the government in the year 1713, at the Peace of Utrecht, made it necessary to have recourse to the Bank again. They agreed to lend the government £100,000, secured upon Exchequer bills, at 3 per cent., upon receiving an extension of their charter, which had still twenty years to run. By the Statute I. 1713, c. 11, its existence as a corporation was prolonged to twelve months' notice, to be given after 1st August, 1742, and the payment of £1,600,000. By a second statute that year, they were authorized to lend money upon South Sea Stock.

60. In 1716, an Act (Statute 1716, c. 8) was passed to redeem and modify several of the public debts

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due to the Bank, but not altering their privileges in any way, and to make further advances at 5 per cent. They were also authorized to make such calls as they pleased upon their proprietors. The excessive absurdity and inconvenience of the usury laws in commerce were even then felt, and the Bank was exempted from their operation. They were authorized, in the quaint phraseology of the Act, "at their own good liking," to borrow or take up money at any rate of interest they pleased, above the legal rate, upon their bills, bond, or any obligation under their Common Seal, or upon credit of their capital stock for any time, or to be paid on demand. What portentous folly it was that any one else might not observe his "own good liking" in the rate he paid for borrowed money. In this Act, the clause prohibiting any banking partnership to consist of more than six members was repeated. There were at that time three annuities of £88,751, £100,000, and £76,830, besides other debts upon which an annual interest at 5 per cent. was paid; the Bank's existence was prolonged indefinitely, until all these annuities and debts were discharged.

61. Up to the year 1711 all the permanent debt contracted by the government consisted of Bank of England Stock. In order to replace the capital thus withdrawn from circulation, the Bank had always been allowed to issue notes to an equal extent; but it was quite evident that this could not go on indefinitely. At this period the party antagonistic to that which founded the Bank of England, were in power. The dismissal of the Whigs had shaken public credit. The unfunded debt of the State was enormous—it amounted to nine millions and a half.* Mr. Harley (afterwards Earl of Oxford),

* Parl. Hist. Vol. VI. p. 1024.

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the Chancellor of the Exchequer, revived the idea which we have before noticed, as first suggested by Dr. Chamberlain. He persuaded a number of merchants to undertake this debt, upon receiving interest at 6 per cent., and being incorporated as a company for 32 years, with the exclusive privilege of trading to the South Seas. This was hailed by his party at the time with great approbation, as a masterpiece of financial wisdom. Such was the origin of the South Sea Company. We cannot, of course, enter into any of the details of this famous scheme, beyond what strictly concerns our present subject. Ample details will be found elsewhere.* Though especially forbidden by Act of Parliament to carry on banking business, this great monetary corporation overshadowed the Bank of England. In 1717, the government determined to make a strong effort to reduce the national debts. Proposals were invited from each of these great companies. The South Sea Company† proposed that their then capital of £10,000,000 should be augmented to £12,000,000; that the additional £2,000,000 should be employed in redeeming several public debts, and among these the bankers' debt; that the interest on their original capital should remain at 6 per cent., and interest at 5 per cent. should be given on the new capital till the 24th June, 1718. After that date interest at 6 per cent. should be allowed on the whole capital. That the duties upon which such interest was chargeable should be continued, and any surplus after paying them should be applied to redeem other public debts. That all sums of principal and interest might be redeemed upon a year's notice, after 24th June, 1725. That their capital and

* More particularly in Francis' Hist. of the Bank of England, and Mackay's Popular Delusions.

† Parl. Hist. Vol. VII. p. 454.

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stock in trade should be exempted from all taxes whatever.

62. The Bank of England proposed that their privileges should remain untouched till 1742, as by the last Act. That an annuity of £106,500 due to them should be reduced to £88,175 after the 25th March, 1718. They offered to advance £2,000,000 at 5 per cent. interest, on Exchequer bills redeemable at one year's notice after 1720, and to circulate some others at 3 per cent. That the interest on the Exchequer bills they held, should be reduced to 1d. per cent. per diem, but that no more should be issued without their consent. They were further willing to advance £2,500,000 for the public service at the rate of 5 per cent. per annum. They demanded that all their privileges should continue until these sums were redeemed. After a warm debate, the proposals of the South Sea Company were accepted.* The Bank of England, however, remonstrated strongly, and petitioned parliament, reminding them of their eminent public services, and requested that all the public stocks might be made transferable and payable at the Bank, which duty they undertook to perform without any profit to themselves, on condition that no further taxes be laid on their capital, or upon their bills and notes. Upon further debate, the proposals of the Bank of England were accepted, as well as those of the South Sea Company, and three Acts were passed to carry them into effect.† At this time the South Sea Company appeared to have got so completely the better of the Bank, that they invited the king to become their governor, and on the 1st of February, 1718, an Act was brought in to remove any difficulties in the way. It was read and passed through both Houses

* Parl. Hist. Vol. VII. p. 461 † Ibid, p. 471.

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on the same day, and on the next, received the Royal Assent.*

63. The skirmish between these two great corporations in 1717, was but the prelude to a much more gigantic contest in 1720. On the 23rd November, 1719, the king recommended the state of the public debts to the attention of parliament. This was preliminary to the introducing a plan to parliament which the ministry and the South Sea Directors had secretly projected, and determined to bring before parliament, before any opposition could be organized against it. It was brought before the House on the 22nd January, 1720. The details are given in the Parliamentary History,† and are much too long to be inserted here. But the outline was as follows:—They estimated the whole of the public debts at £30,981,712; they proposed to buy up the whole of these, and consolidate them into one fund, which was to be added to their capital at 5 per cent. interest. For these privileges they offered a *bonus* of £3,500,000 to the State, payable in four instalments, to commence at Lady-day, 1721. This astounding proposal was brought before the House by surprise, but its terms were not so favourably received as was expected, and gave the friends of the Bank time to rally. They reminded the House of the great and eminent services it had done the public, and obtained five days' delay.

64. The Bank determined not to be outdone in audacity. They also undertook to consolidate these debts, and add them to their capital. Upon the whole, it was calculated that their proposal was more advantageous to the nation, by about £2,000,000, and was payable in less time.‡ The South Sea Company obtained

* Parl. Hist. Vol. VII. p. 471. † Ibid, p. 536.
‡ Ibid, p. 633.

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three days' delay to amend their offer. They increased the bonus to the public to £7,567,500 besides other minor points. The Bank, in a fit of wild desperation, amended their offer. The chief points were that for every £100 annuity for 96 and 99 years, they offered £1,700 Bank Stock, and that after the 24th June, 1727, the interest on the whole consolidated funds should be reduced to 4 per cent. absolutely, and thenceforth be redeemable by parliament.

65. The contest between these gigantic rivals, was simply which was to devour the other. The debate was long and fierce; Mr. Robert Walpole was the champion of the Bank, Mr. Aislabie, Chancellor of the Exchequer, was patron of the South Sea Company. At length, on the 2nd April, the South Sea Bill was read a third time, and passed by a majority of 172 to 55.* Then it was carried up to the Lords. The debate was equally animated, but, as usual, less garrulous; it was ended in a single day, and the South Sea carried the day by a majority of 83 to 17.† The king closed the session on the 11th June, and congratulated parliament on the good foundation they had prepared for the payment of the national debts, without violation of the public faith.

66. The price of the South Sea Stock on the 7th April, when the Bill passed, was 310, next day it fell to 290. On the 12th, the directors opened their first subscription of £1,000,000 at £300 for every £100, having first propagated the most enormous falsehoods of alleged trading advantages they had secured in the South Seas. Twice the sum was subscribed, and in a few days the subscriptions were sold at double the price of the first payment. Then began the wild delirium,—by successive

* Parl. Hist. Vol. VII. p. 646. † Ibid. p. 647

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stages, the stock stood at £500 on the 23rd May; on the 2nd June, at £890; next day it fell to £640. After some fluctuations the Company opened their books for a third subscription at £1,000; £4,000,000 were taken at that price, and before the end of June, the stock was at £2,000. The price of Bank Stock, at the same time, was £260. The great outbreak of the bubble mania had begun before the prorogation of parliament, and on that day the king had published a proclamation to put them down, but with little effect. By the middle of July the projects before the public required a capital of £300,000,000. One was "For carrying on an undertaking of great advantage, but nobody to know what it is." The witty rogue promised, on a deposit of £2 2s. that each subscriber should receive an income of 100 per cent. In a single morning he received £2,000, and, of course, immediately decamped.* Permissions to subscribe to a future scheme were selling at sixty guineas.

67. Then came the fearful collapse, on the 2nd September, the stock was at £700. The directors made many vain efforts to retrieve its credit. On the 13th it was at £400. Then the directors were compelled to make humble suit to their vanquished rivals. At the intercession of Walpole, the Bank of England agreed to a draft of a contract for providing means to sustain the credit of a number of their bonds. After protracted negociations, the terms were agreed upon between the two companies, and brought before the proprietors of the Bank of England, and approved of by them. Before, however, it could be embodied in a legal form, affairs took a very different turn. A great many of the goldsmiths and private bankers had advanced great sums

* Parl. Hist. Vol. VII. p. 662.

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upon the South Sea Stock; when this fell, it brought a run upon them. Many of them stopped payment, and absconded. The Sword Blade Company, who were the cashiers to the South Sea Company, stopped payment. This portended universal bankruptcy. The Bank had been assailed with every species of public resentment because it had hesitated to lend its aid in supporting the South Sea Bonds. Every one looked upon it as the sole pillar of credit, but even the credit of the Bank was now shaken. The general failure of the bankers immediately caused a great run upon it. The Bank, in these straits, devised a trick to prolong the payments. It employed a number of clerks to tell out the money which was demanded, as well as what was brought in. Payments were made in light sixpences and shillings, and large sums were paid to particular friends, who went out with their bags of money at one door, to deliver them to people placed at another, who were let in to pay the same money to tellers, who took time to count it over. These persons were, of course, always served first. By this means time was gained, the friends of the Bank rallied round it, and made large subscriptions to support the company,* the festival of Michaelmas, at which it was usual at that time to shut up the Bank,† came, and when it was opened again, the public alarm had passed off.

68. But something was required to be done to restore public credit. The South Sea Company were permitted to sell annuities to the value of £200,000 a year. The Bank bought them at 20 years' purchase, and was allowed to add the £4,000,000 to its capital; it then stood at £8,959,995 14s. 8d.

* Analysis of Trade, &c., by Philip Cantillon, 1759, p. 179.

† Parl. Hist. Vol. VII. p. 675.

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69. Up to the year 1722, the Bank had divided the whole of its profits among the shareholders, and had made no reserve for any contingencies. The dividend in consequence had been extremely variable. It had fluctuated from 18½ per cent. in 1706, to 6 per cent in 1722. The inconvenience of this was strongly felt, as well as having no fund to fall back upon in cases of emergency. These had hitherto been met by making calls upon the proprietors. In this year the directors established a reserve fund, which is called the Rest.

70. Several financial transactions took place between the government and the Bank, which need not be detailed here. Upon most of the previous occasions of the renewal of the charter, there had been much public discussion as to the expediency of continuing this monopoly. The Bank, however, had always been able to relieve the continually embarrassed state of the finances, and had thus purchased its privileges. As the time was drawing near for the expiry of the monopoly in 1742, these discussions became more frequent and animated, and several attempts were made to set up banks in such a manner that they should not violate the clause in the Act of 1709. When the time for the renewal came, the government were as usual, in difficulties, and the Bank agreed to lend them £1,600,000, without interest. To raise this sum, they made a call upon their proprietors, which raised their capital stock to £9,800,000. In consideration of this their exclusive privileges were continued till twelve months' notice after 1st August, 1764. Moreover, it was determined to stop up all the loopholes in the Act of 1709, and the following clause was inserted in the Act, (Statute 1742, c. 13. s. 5.)

"And to prevent any doubts that may arise concerning the privilegeor power given by former Acts of Parliament, to the said

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Governor and Company of *exclusive banking*, and also in regard to the erecting any other bank or banks by parliament, or restraining other persons from banking during the continuance of the said privilege granted to the Governor and Company of the Bank of England as before recited, it is hereby further enacted and declared by the authority aforesaid, that it is the true intent and meaning of the Act, that no other bank shall be erected, established, or allowed by parliament, and that it shall not be lawful for any body politic or corporate whatsoever, erected or to be erected, or for any other persons whatsoever united or to be united in covenants or partnership, exceeding the number of six persons, in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money on their bills or notes payable at demand, or at any less time than six months from the borrowing thereof, during the continuance of such said privilege to the said Governor and Company, who are hereby declared to be and remain a corporation with the privilege of exclusive banking as before recited."

These words were devised with the utmost care, so as to prevent any other rival, in the most comprehensive manner possible. It was supposed that no legal ingenuity could devise an expedient to evade so extensive a prohibition. But, alas! for the wit of lawyers! We shall see afterwards that a change in the method of doing banking business, so simple, and apparently so unimportant as scarcely to deserve attention, cut away the ground from under this Act, and destroyed the monopoly of the Bank. But we have many years to look forward to before that event.

71. In September, 1745, the rebellion in Scotland seemed to be assuming formidable proportions, and produced a run upon the Bank, partly caused, it is said, by the friends of the Prince, both to get money to assist him, as well as to embarrass the government; but a meeting of merchants immediately took place, and 1140 of the most eminent came to a resolution pledging themselves to support the credit of the Bank notes. It is also said that

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the Directors adopted the same expedient on this occasion, which had been so successful in 1720, of paying in six-pences.

72. In 1746, the ministry were again in difficulties from the political disturbances of the preceding year, and they were obliged to apply for assistance to the Bank. The proprietors authorized the directors to cancel £986,000 of Exchequer bills, upon receiving an annuity of 4 per cent. and to create new stock for that purpose. This increased the paid-up capital to £10,780,000, which was not further augmented till 1782. In 1750, the interest upon £8,486,000 of the debt due to them from government was reduced to 3 per cent.

73. In 1759, the Bank began to issue notes for £15 and £10.

74. The practice of giving notes or receipts for deposits payable on demand, originated with the gold-smiths, and was continued by the bankers, and was universally followed by bankers at this period. Thus we have it said,—

"The cash for bankers' notes of undoubted capitals and credit, such as a Child, a Hoare, and a Colebrook, is but rarely called for; but if these notes fall into people's hands who are not their customers, then payment is immediately demanded. The prudent banker regulates his conduct by such as make use of his shop. If his notes fall into his brethren's, or into the hand of a bank such as that of England, nothing will be more pressing than they will be for their cash."*

75. It is a favorite doctrine with some persons, that it is impossible to have an undue extension of credit with a purely metallic basis, and that an improper issue of bank notes is the sole cause of too great an expansion of credit. Just as if the currency being made of metal could

* The Analysis of Trade &c., by Philip Cantillon 1759. p. 173.

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prevent people from giving their "promise to pay," and buying up goods on speculation. The year 1763 is remarkable as among the first of those great eras of commercial distress and prostration, caused by too great an expansion of credit. And these disasters took place where there was no currency at all but what represented bullion, —Hamburg, and Amsterdam. The progress of the seven years' war had probably encouraged great speculation among the continental merchants, which involved those connected with them in ruin, when peace came. Two brothers at Amsterdam, named Neufville, were among the principal merchants and speculators, who had connections all over the continent. At length their embarrassments became so great that the bankers at Amsterdam could no longer support them, and they failed for upwards of 330,000 guineas, on the 29th July, 1763. Before the news of their actual stoppage reached Hamburgh, the bankers at that town were thrown into the greatest consternation by hearing that it was intended at Amsterdam to allow the Neufvilles to fail. On the 4th August, 1763, the bankers at Hamburgh met to consider how the tottering state of credit in that town was to be supported, when they say,—

"We received a fatal express with the terrible news that you, the gentlemen of Amsterdam, would leave the Neufvilles to sink, by which we were all thunderstruck; never dreaming that so many men in their senses in your city could take such a step—a step which will infallibly plunge all Europe into an abyss of distress, if not remedied by you whilst it is time. We, therefore, send this circular and general letter to you by an express, to exhort and conjure you as soon as you receive this, to undertake still to support the Neufvilles by furnishing what money they want, and giving them two or three persons of unquestionable probity and skill for curators, that their affairs and their engagements may be concluded and terminated, without causing a general ruin, which will otherwise infallibly happen. If you do not, gentlemen, we hereby declare

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to you, that our resolution is taken, that is to say, that although we represent a very respectable body of rich and respectable men, we have unanimously resolved to suspend our own payments, as long as we shall judge it proper and necessary, and that we shall not acquit them, or the counterprotests that shall come from you, or any whatever.

"This is the resolution we have unanimously taken and from which we will not depart, happen what will. The fate of the general commerce of all Europe is at present absolutely in your hands; determine, gentlemen, whether you should crush it totally, or support it."*

The letter, however, came too late to exercise any influence, as the Neufvilles had been allowed to fail six days before. A general failure took place, eighteen houses immediately stopped payment. A much greater number in Hamburgh immediately followed, and no business was for some time transacted but for ready money. The failures were equally general in many others of the chief cities of Germany. A conspicuous example that credit may be just as easily abused under a metallic currency, as under a paper one.

76. In 1764, the Bank's Charter expired. The terms of renewal were an absolute gift of £110,000 to the nation, and a loan of £1,000,000 on Exchequer bills for two years, at 3 per cent. interest. The charter was then renewed on these terms till twelve months' notice after 1st August, 1786, and the repayment of the government debt.

77. In 1772, the first of those great commercial panics took place, in which the Bank was called upon to take a prominent part in supporting commercial credit. The preceding two years had been distinguished by the most extravagant overtrading. On the 10th June, 1772,

* Letter from the Bankers at Hamburgh to the Bankers at Amsterdam, 4th August, 1763. Tooke's Hist. of Prices. Vol. I. p. 149.

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Heale and Co., Bankers in Threadneedle Street, stopped payment,* involving several others. The Bank of England and some merchants came forward to support credit, which had the appearance for a few days, of being successful. But in ten days' time a general crash ensued. The whole city was in consternation, there had not been such a prospect of a general bankruptcy since the South Sea scheme. By the measures taken, the panic was at length allayed, but the bankruptcies of that year amounted to the unprecedented number of 525.† These speculations had been general throughout Europe, and in 1773, the crash extended to Holland. About the beginning of that year‡ the failures in that country were of so alarming a nature, and so extensive in their influence, as to threaten a mortal blow to all public and private credit throughout Europe. They were caused by great speculative dealings in trade, as well as in the public funds of different countries, and the losses were estimated at £10,000,000.

78. We have in a previous chapter,§ remarked that during the course of this century, the coinage was progressively deteriorating, and that a committee of the House of Commons reported that on a considerable amount of the gold coinage, the deficiency was about 9 per cent.; in the year 1774, the great re-coinage was ordered. The market price of gold well illustrates this deterioration.

Before the re-coinage.

	Market Price of Gold.
July, 1718	£3 19 10
Jan. 1721	3 18 6

* Francis.—Hist. of Bank of England, Vol. I. p. 175.

† Macpherson's Hist. of Commerce. Vol. III. p. 524.

‡ Annual Register, Vol. XVI. . 9. § Vol. I. Chap. iii. p. 165.

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		Market Price of Gold.
Jan.	1730	3 18 11
„	1754	3 18 5
„	1761	3 18 10
„	1772	4 1 0

After the re-coinage.

Jan.	1782	3 17 6
„	1790	3 17 6*

And it continued at this rate till September, 1797.†

79. The next renewal of the charter was in 1781, when, upon the Bank's advancing £2,000,000 at 3 per cent. interest for 3 years, the charter was renewed till twelve months' notice after the 1st August, 1812, and the payment of the public debt. In the next year a call of £8 per cent. on the capital produced £862,000, and the paid-up capital of the Bank was £11,642,400. The renewal of the charter five years before its expiry, excited very keen discussion. The ministry, however, eulogized the eminent public services the Bank had rendered for ninety years, and warmly deprecated any attempt to interfere with its privileges. They carried their plan by a majority of 109 to 30.‡ Considering that the 3 per cents. were then at 58, the offer of the Bank was a very great accommodation to the State.

80. It was about this period, though the exact date is difficult to ascertain, nor is it very material, that the London bankers introduced a change in the method of doing their business. Instead of giving their customers notes or deposit receipts for the sums left with them, they

* Quoted by Sir GeorgeRose. Hansard, Vol. XIX. p. 838.

† Appendix to Commons Committee. Report on the Resumption of Cash Payments, 1819, p. 292.

‡ Parl. Hist. Vol. XXIV. p. 516.

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gave them *cheque* books, or books with a number of blank drafts upon themselves. The customer kept these books at his own house, and whenever he had occasion to make a payment, he filled up one of these blank drafts in the payee's favor, and the banker undertook to pay such a draft on demand, provided he had funds of his customer's in his hands to meet them, just as he was in the habit of paying his own notes on demand. This method of doing business had so many advantages over that of bank notes, that it universally superseded them in London. From that period London bankers ceased entirely to issue notes, though they never were forbidden to do so, until the Act of 1844. This change, simple as it may appear, is of great historical interest, for we shall see hereafter that it was the circumstance that destroyed the monopoly of the Bank of England. Bank notes we have seen are nothing but promissory notes, payable to bearer on demand. So these cheques are simply unaccepted bills of exchange payable to bearer on demand. By a fortunate accident, the opportuniy that this method afforded of circumventing the monopoly of the Bank, was not discovered till many years afterwards. If it had been, there cannot be a doubt but that parliament would have put it down very quickly; when it was discovered, the age of such monopolies had passed away, and the demand of the Bank to have it provided against was refused.

81. The termination of the seven years' war took place in 1763, when it is usually said that this nation finally took that rank in the scale of nations which she at present holds. Coincidently with this, the industrial energies and mechanical genius of the nation burst forth with unparalleled splendour. Previously to this time, Great Britain was probably more backward in great public works than any State in Europe. She could show

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nothing that could be compared with the great French and Spanish engineering works. The first canal in France preceded the first canal in England by 150 years. The great canal of Languedoc was completed upwards of half a century before the smallest canal was begun in England. And Spain had preceded France by three quarters of a century. She owes the canal of the Ebro to the genius of Charles V. Italy, the cradle of all modern literature, wisdom, science, and art, was famous for its hydraulic works, in the eleventh century, which are still the admiration of modern engineers. The first Act for a work of this nature however small in England, was passed in 1755. Facility, quickness, and cheapness of transit are the very foundations of commercial greatness. Brindley, the father of the modern commercial greatness of England, completed the canal from Worsley to Manchester, in 1762. This was as prodigious a stride in advance of the age, as the opening of the railway from Manchester to Liverpool was in its day. The success of this was triumphant. Then commenced the great era of canal making. Within 25 years the country was covered with a network of canals such as no other country in Europe, but Holland, can boast. Taking into consideration the comparative wealth of the country at the two periods, the period from 1770 to 1795 was fully as wonderful an effort in canal-making, as the period from 1830 to 1855 was in railway-making. Concurrently with this prodigious extension of the facilities of transport, an equal extension of the powers of production took place. It would almost seem like a dispensation of Providence, that at this particular period such an extraordinary outburst of mechanical genius took place. It would almost seem that these three men, Brindley, Arkwright, and Watt, were specially raised up by Providence to elaborate these miraculous

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resources, which it is impossible to doubt, carried this country triumphantly through that terrific contest, which was then just about to burst upon the world.

82. It was just at this period that the original sin of the monopoly of the Bank of England began to tell with full force upon the country. Now were the seeds of future ruin, misery, and desolation sown broadcast throughout the land. The prodigious development of all these industrial works demanded a great extension of the currency to carry them on. What was required was to have banks of undoubted wealth and solidity to issue such a currency. Bank of England notes had no circulation beyond London. Its monopoly prevented any other great banks being formed, either in London or the country, and it would not extend its branches into the country. Scotland at this time possessed three great and powerful Joint Stock Banks, and it was just at this period that they began successfully to extend their branches into the country. England required to have a currency, and as it could not have a good one, it had a bad. Multitudes of miserable shopkeepers in the country, grocers, tailors, drapers, started up like mushrooms and turned bankers, and issued their notes, inundating the country with their miserable rags—men as different from the bankers of London, as the chief of a savage tribe is from the Sovereign of Great Britain. In 1775 an Act was passed to prohibit bankers issuing notes of less than 20s., and two years afterwards of less than £5. It is no doubt true that many of the most respectable banking firms of the present day also took their rise at this time, but they were comparatively speaking few. The great majority were such as we have described above.

83. The state of the foreign exchanges, and the condition of the coinage about this period, offer many

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instructive examples of the truth of the principles laid down in the chapter on Exchanges, but we shall reserve them till we come to the consideration of the Bullion Report, when they will be fully discussed.

84. In 1782 the unhappy war with America was fortunately terminated, and immediately a prodigious extension of the foreign commerce, which had been previously unusually restricted, took place. The enormous markets thrown open to the merchants, led to the most extravagant overtrading, which was greatly fostered by the most incautious issues by the Bank,* and a very alarming drain of specie from the Bank, which produced a crisis threatening to compel them to stop payment. The directors, however, considered that if they could only restrain their issues for a short period, the returns in specie in payment of the exports would soon set in in a more rapid manner than they went out. They determined, therefore, to make no communication to the government, but for the present to contract their issues, until the exchanges turned in their favour. The alarm felt by the Bank was greatest in the month of May, 1783. They then refused to make any advances to government on the loan of that year, but they did not make any demand for payment of the other advances to government which were then between nine and ten millions. They continued this policy up to October, when at length the drain had ceased from the country, and money began to flow in from abroad. At length, in the autumn, when the favourable signs began to appear, they advanced freely to government on the loan, although at

* Evidence of Mr. Tooke—Committee on Bank of England Charter, 1832, p. 269.

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that time, the cash in the bank was actually lower than at the time when they felt the greatest apprehensions.*

85. The doctrine then stated by Mr. Bosanquet that guided the directors was this: That while a drain of specie is going on, their issues should be contracted as much as possible, but that as soon as the tide had given signs of ceasing and turning the other way, it was then safe to extend their issues freely. This was the policy they acted upon, and it was entirely successful, and the credit of the Bank was saved.

86. The period succeeding the American war was one of great apparent prosperity throughout Europe. People firmly believed that all wars were come to an end, and the reign of perpetual peace had begun. The fierce enthusiasm which had distracted Germany for so many years with religious wars, had abated, and the despotic sovereigns of that country, with no apparent object of terror, had become sensibly milder in their administration. The press had attained unwonted freedom. To the unobserving eye nothing betokened any symptoms of disturbance; and the writings of philosophers propagated the belief that the indefinite progress of human perfectibility was at hand. Europe was at last roused from its dream of security by the terrific progress of the French Revolution.

87. Mr. Tooke states from his own personal recollection, that there had been an enormous and undue extension of commercial speculation, not only in the internal trade and banking of this country, but also throughout Europe and the United States, for some years previous to

* The evidence of Mr. Bosanquet before the Lords' Committee of Secrecy, 1797, p. 31; and before Commons' Committee, p. 26. It was reduced to £473,000. Evidence of Mr. Tooke before Committee on Bank of England Charter, 1832.

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1792.* The amount of bank notes in circulation, which was under six millions in 1784, had increased to nearly eleven millions and a half in 1792.† At length, in the autumn of 1792, commercial failures began both here and abroad, as well as in America. The average of bankruptcies during the first ten months had been 50, in November, they suddenly rose to 105. This unusual number created much uneasiness, but they diminished greatly in December. In January, 1793, they rose again. The French Revolution was now advancing with rapid strides ; the king had been a prisoner ever since the 10th August. In November the Convention published what was tantamount to a declaration of war against every established government in Europe. Great Britain thought it time to arm. The militia were called out, and on the 13th December parliament met, and the king called the attention of the Houses to the increasing political ferment in the country, which had shown itself in acts of riot and insurrection. He said that the agitators were evidently acting in concert with persons abroad, and that it was impossible to see without the most serious uneasiness, the evident intention of the French to excite disturbances in foreign countries, wholly contrary to the law of nations. Under these circumstances it became necessary to augment the military and naval forces of the country. An angry correspondence between the governments inflamed the passions of both nations, and on the execution of the king the British government expelled the French ambassador, and the Convention instantly declared war. The declaration of war, though it must evidently have been foreseen, gave a shock to credit which was already staggering. On

* Hist. of Prices, Vol. I. p. 277.

† Lord's Committee of Secrecy, 1797, p. 174.

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the 15th February a house of considerable magnitude, deep in corn speculations, failed, and on the 19th, the Bank refused the paper of Lane, Son and Fraser, who stopped next morning to the amount of nearly one million, involving a great number of other respectable houses. In the meantime, the panic spread to the bankers. It began at Newcastle. The partners in the banks at Newcastle were opulent, but their private fortunes were locked up. They issued notes which allowed interest to commence at some months after date, and then they were payable on demand,* when the run came they were unable to realize, and stopped payment. The panic immediately spread throughout the country. It was computed that there were nearly 400 country banks at that time, of these 300 were much shaken, and upwards of 100 stopped payment.† The banks of Exeter and the West of England almost alone stood their ground. They issued notes payable at 20 days' sight, with interest commencing from the date of the note, and ceasing on the day of acceptance.‡ The best contemporary authorities are unanimous in attributing this terrible disaster to inordinate multiplication and reckless operations of these country "bankers," which had been established in almost every town and even villages in the country.§

88. This great pressure extended to the London bankers as well as the country ones. One of them says that the extraordinary state of credit had obliged every person connected with trade and money transactions, to gather in and husband every resource to meet all de-

* Sir Francis Baring.—Observations on the Establishment of the Bank of England, &c., 1797, p. 18.

† Chalmer's Historical View, &c., p. 229.

‡ Sir Francis Baring.—Observations, &c., p. 18.

§ Sir Francis Baring : Chalmers : Tooke.

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mands. That for six weeks back every man of money and resources had been straining every nerve to support himself and immediate friends, and could not give that support to others which they would have been disposed to do. All these circumstances naturally produced a demand on the Bank of England for support and discounts. But the Bank being thoroughly alarmed, resolved to contract its issues. Bankruptcies multiplied with frightful rapidity. The government urged the Bank to come forward and support credit, but they resolutely declined.

89. Sir Francis Baring* greatly blames the directors for their conduct on this occasion. He says that they at first accommodated themselves to the crisis, but their nerves could not support the daily demand for guineas, and for the purpose of checking that demand, they curtailed their discounts to a point never before experienced; and that if they determined to reduce their issues, it should have been gradual. Their determination, and the extent to which it was carried, came like an electric shock.

90. He says that there are three different causes for a great demand for guineas.†

1. For export.

2. For the purpose of hoarding, from want of confidence in the government, and in the circulating paper.

3. To enable country banks to discharge their demands, whilst confidence in the government and in the bank remained entire.

That every measure ought to be taken to prevent and mitigate the first cause, except prohibition or bankruptcy. We may reserve the second till we come to 1797. That the third ought to be viewed, not with indifference, but with a disposition to spend almost their

* Observations, &c. p. 21. † Ibid. p. 23.

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last guinea. He shews, from the state of the exchanges, that it was quite impossible the guineas could have left the country, as the loss on exporting them to Amsterdam was £3 6s. 3d., and to Hamburgh, £4 2s. 6d. per cent., and it was notorious that large quantities of gold and silver were coming in from France. The cause of this was the continued depreciation of the assignats. Under these circumstances, he says that the directors acted quite wrongly, they ought to have seen that the guineas would have very soon come back to them, and that they ought, in fact, to have followed the precedent of 1783, which had been so successful.

91. When the Bank adopted this perverse course, universal failure seemed imminent. Sir John Sinclair remembered the precedent of 1697, when Montague had sustained public credit by an issue of Exchequer bills, and thought that a similar plan might be followed in this crisis. The minister desired him to propose a scheme for the purpose, which he presented on the 16th April.* A committee of the House of Commons was immediately appointed. In the meantime, a director of the Royal Bank of Scotland came up with the most alarming news from Scotland. The public banks were wholly unable, with due regard to their own safety, to furnish the accommodation necessary to support commercial houses, and the country bankers. That unless they received immediate assistance from government, general failure would ensue. Numerous houses, who were perfectly solvent, must fall, unless they could obtain temporary relief. Mr. Macdowall, M.P. for Glasgow, stated that the commercial houses and manufactories there were in the greatest distress from the total destruction of credit.

* Sinclair's Hist. of the Public Revenue, Vol. II. p. 289.

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That this distress arose from the refusal of the Glasgow, Paisley, and Greenock banks to discount, as their notes were poured in upon them for gold.

92. The committee reported* that the general embarrassment of commercial credit was so notorious as to call for an immediate remedy, without much examination. That the failures which had taken place, had begun with a run on those houses that issued circulating paper without sufficient capital, but had extended so as to affect many houses of great solidity, and possessed of funds ultimately much more than sufficient to answer all demands upon them, but which could not convert those funds into money in time to meet the pressure. That the sudden discredit of so large amount of bankers' notes had produced a most inconvenient deficiency of the circulating medium. These circumstances had caused bankers to hoard to a great extent. That unless a circulating medium was provided, a general stoppage must take place. That they had requested a number of the most eminent merchants to meet and consider a plan of issuing Exchequer bills to a certain amount, under proper regulations, who had unanimously agreed in the propriety of such a course, as the best remedy that could be devised.

93. The committee recommended that Exchequer bills to the amount of £5,000,000 should be issued under the directions of a board of commissioners appointed for that purpose, in sums of £100, £50, and £20, and under proper regulations.† After considerable doubts were expressed by Mr. Fox and Mr. Grey, as to the policy of this extraordinary measure, which was unknown to the constitution and might subvert our liberties, the bill passed.

* Parl. Hist. Vol. XXX. p. 740. † Ibid. p. 754.

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94. No sooner was the Act passed than the committee set to work. A large sum of money, £70,000, was sent down to Manchester and Glasgow on the strength of the Exchequer bills, which were not yet issued. This unexpected supply coming so much earlier than was expected, operated like magic, and had a greater effect in restoring credit than ten times the sum could have had at a later period.*

95. When the whole business was concluded, a report was presented to the Treasury. It stated the knowledge that the loans might be had operated, in many instances, to prevent them being required. The whole number of applications was 338, and the sum applied for £3,855,624, of which 238 were granted, amounting to £2,202,000; 45 for sums to the amount of £1,215,100 were withdrawn, and 49 rejected. The whole sum advanced was repaid; two only of the parties assisted became bankrupt, all the others were ultimately solvent, and in many instances possessed of great property. A considerable part of the sum was repaid before it was due, and all the rest with the utmost punctuality. So much scrupulous care was taken to preserve secrecy as to the names of the applicants, that they were not known to that hour except to the commissioners and their own sureties. After all expenses were paid, the transaction left a clear profit to the government of £4,348.

96. Whatever were the prognostications of its futility and danger before it was done, its success was perfect and complete. The contemporary writers all bear witness to the extraordinary effects produced. Macpherson says, that the very intimation of the intention of the legislature to support the merchants, operated like a charm all over the country, and in a great degree super-

* Sinclair—Hist. of Revenue, Vol. II. p. 298.

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seded the necessity of the relief by an almost instantaneous restoration of confidence.* Sir Francis Baring concurs in this view, and adduces the remarkable success of the measure as an argument to shew the mistaken policy of the Bank. The panic was at length happily staid. The failures up to July had been 932, in the remaining five months they were reduced to 372. The gold continued to flow in, and in the last six months of 1793, and during the two following years, money became as plentiful as in time of peace,† and 4 per cent. interest could scarcely be got.

97. All contemporary writers bear witness to the wonderful success of this expedient. After careful deliberation the Bullion Report warmly approved of it, censured the proceedings of the Bank of England, and especially cite it as an illustration of a principle which they laid down, that an enlarged accommodation is the true remedy for that occasional failure of confidence in the country districts to which our system of paper credit is unavoidably exposed.

98. Notwithstanding all this weight of testimony in favor of the happy effects of this measure, some rigid doctrinaires afterwards condemned the proceedings as a violation of the true principles of political economy. Even some who helped to devise it, changed their opinion afterwards upon the subject. Thus, Lord Sidmouth in 1811,‡ observed that he was, upon consideration, inclined to doubt of its wisdom and policy. Lord Grenville also§ said, that from experience and reflection he was convinced the measure was founded on wrong policy; as one of

* Annals of Commerce. Vol. IV. p. 269.

† Sir F. Baring—Observations, &c. p. 46.

‡ Parl. Debs. Vol. XIX. p. 530. § Ibid. p. 534.

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those who were concerned in the measure, he was perfectly ready to avow his error, for he was perfectly satisfied in his own mind that it was unwise and impolitic.

99. It appears to us that the reply to these objections is short and simple. In the first place, if it were a violation of the true principles of political economy, it immediately resolves itself into a question of loss of capital. It is quite easy to shew that all great errors in political economy are destructive of capital. They may be estimated in money. Was this measure a pecuniary loss to the country? But what would have been the loss to the country if it had not been adopted? Who can estimate the destruction of capital that would have ensued in the general wreck of public credit? It might have endangered the safety of the State. But there are other arguments which appear to us to be conclusive as to its propriety. The general loss of credit was chiefly caused by a thorough want of confidence in the *currency* of the country. The miserable notes of the majority of bankers were utterly blown upon. The great desideratum was a sound currency. Now, what was it that caused such an unsafe currency to be in circulation? It was nothing but the unjustifiable monopoly of the Bank of England. It was this monopoly, which was itself the most flagrant violation of the true principles of political economy, which caused the bad character of the currency. Consequently the measure of the government in providing a currency in which people would have confidence, was merely a correction of the error which had produced these deplorable results. An undesirable one, it may be, but yet no better one was possible under the circumstances.

100. Sir Francis Baring, and Mr Tooke, both agree in saying that nothing could be more satisfactory than the financial condition of the country during 1794, and part

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of 1795. Both agree that the circumstances of the embarrassments, which led to the catastrophe of 1797, began in the latter part of the year 1795.* Mr. Tooke places the commencement rather earlier than Sir F. Baring. He states that the winter of 1794-5, was one of the severest on record, and that in the spring of summer of 1795, apprehensions began to be felt for the growing crops. The prices of all sorts of corn advanced rapidly. The spring of 1795 was very cold and backward, the summer wet and stormy, and the harvest unusually late. Under these circumstances, wheat which was at 55s. in January, reached 108s. in August. The same scarcity was general throughout Europe and America. France was in a still worse position than England, and the government, still further to embarrass her and afford relief to this country, seized all neutral vessels laden with corn bound for France; it also employed agents to buy corn in the Baltic ports, where its price had already been raised greatly, in consequence of large purchases on account of the French Government.†

101. Sir Francis Baring also states (p. 46) that the method in which the government contracted the loan that year tended much to aggravate the evil. He says that in former wars, it had been usual for the government to contract with none but the most respectable monied men, who had the undoubted power to fulfill their engagements. On this occasion, the minister contracted with men who did not possess those powers, and in order to make good their payments, they were obliged to have recourse to operations on foreign places, which deranged the ex-

* Sir F. Baring.—Observations &c., p. 46. Hist. of Prices. Vol. I. p. 181.

† Hist. of Prices. Vol. I. p. 182.

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changes, and had a still greater effect on raising the rate of interest in this country.

102. These causes alone were sufficient to create a monetary pressure, but though they would have been inconvenient, there would have been nothing to create alarm in them. They were, however, aggravated and intensified by other circumstances, which we must now relate.

103. The enormous abuses which might be perpetrated by an unscrupulous government, and the dangerous power which so potent an engine as the Bank of England would confer upon them, had been clearly foreseen by its antagonists, at the time of its foundation, and had inspired them with a well-grounded jealousy. We have seen that stringent precautions were taken in the first Act of 1694, to prevent the Bank making any advances to government, without the express permission of parliament. It had been the custom,* however, time out of mind, to advance for the amount of such Treasury bills of exchange, as were made payable at the Bank, to the amount of £20,000 or £30,000, when it was usual for the Treasury to send down orders to set off such advances against the accounts to which they properly belonged. If ever these advances reached £50,000, it was a subject of complaint. In the American war these limits had been much exceeded, and sometimes reached £150,000. Mr. Bosanquet was Governor of the Bank in 1793, and the legality of such proceedings excited grave doubts in his mind, and after consulting with his brother directors, they agreed that it was a serious question whether the penalties provided in the Act did not extend to such transactions. They therefore thought it would be expedient

* Lord's Committee of Secrecy, 1797. Mr. Bosanquet's Evidence, p. 33.

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to apply to the government, to obtain an Act of indemnity to relieve them from any penalties they might have incurred, and to permit such transactions to a limited amount. Mr. Bosanquet, who conducted the negociation with Mr. Pitt, expressly says that Mr. Pitt proposed to bring in a clause which should indemnify the directors to advance *to a limited amount.** He says that it was originally intended that the penalty should be taken off only in case the advance on treasury bills should be restrained within a limited sum.† This limited amount was intended to be fixed at £50,000 or £100,000. Mr. Bosanquet, however, then went out of office, and was unable further to attend to the negociation. Mr. Pitt was much too keen not to see at once the enormous facilities government would obtain if this Act were passed. Accordingly, he pressed it quickly through parliament, but he took care to omit any clause of limitation (Statute 1793, c. 32.) Never had such a formidable engine been placed in the hands of a minister. He was now armed with an unbounded power of drawing upon the Bank, with nothing to restrain him unless the directors should take the audacious step of dishonouring his Bills. The Bank, henceforth, was almost entirely at his mercy, and then he plunged headlong into that reckless career of scattering English gold broadcast over Europe.

104. No sooner had Mr. Pitt surreptitiously obtained this power over the Bank, than he set all bounds of moderation at defiance, and sure of being able to command unlimited supplies at home, he proceeded to send over enormous amounts of specie to foreign powers. In 1793 the subsidy and sums paid to foreign emigrants amounted to £701,475. In 1794 the foreign subsidies were £2,641,053 ; in 1795

* Evidence, Lords' Committee, p. 34.

† Evidence, Commons' Committee, p. 34.

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they amounted to £6,253,140. Thus, in three years, the sums sent abroad amounted to upwards of nine millions and a half. These, however, were not the totals of the specie sent abroad on other accounts. In 1793 it was £2,785,232, in 1794 £8,335,592, in 1795 £11,040,236.* These great remittances had the inevitable effect of making the foreign exchanges adverse, and excited the greatest alarm in the Bank parlour. At the same time that this great drain of specie was going on, the Treasury bills increased to an unprecedented amount, and the demands for accommodation from the commercial world were equally pressing. Nothing could be more unpleasant than the situation of the directors, placed between these powerful parties contending for accommodation, which it was daily becoming less in their power to give. So early as the 11th December, 1794, the directors foresaw the ensuing pressure, and made representations to Mr. Pitt. In January, 1795, it became necessary to adopt a firmer attitude, and on the 15th they passed a resolution that with a foreign loan of six millions, and a home one of eighteen millions about to be raised, the Chancellor of the Exchequer must be requested to make his financial arrangements for the year, without requiring further assistance from them; and more particularly that they could not allow the advances on Treasury bills at any one time to exceed £500,000. Mr. Pitt promised to reduce them to that amount by payments out of the first loan.

105. He, however, paid little regard to these remonstrances; and on the 16th April,† they were compelled to remind him that he had not kept his promise that the sum should be reduced. They told him that they had come to a resolution that they would not, in

* Appendix to Lords' Committee of Secrecy. No. 23. p. 192.

† Ibid, p. 147.

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future, permit the advances to exceed the stipulated sum. Mr. Pitt pretended he had forgotten the circumstance in the multiplicity of business, and promised that the sum should be immediately paid.* Nevertheless, no reduction took place in the amount; another remonstrance was equally ineffectual, and on the 30th July the Directors informed him that they intended, after a certain day to give orders to their cashiers to refuse payment of all bills, when the amount exceeded £500,000. Mr. Pitt was not prepared to comply with the request, and on the 6th August he applied to them for another advance of two millions and a half, but they refused to take his letter into consideration, until he had made satisfactory arrangements with them for the repayment of the other advances. After some further communications, they agreed to the loan for £2,000,000.

106. The Act of Mr. Pitt had, in fact, deprived the directors of all control over the Bank. The foreign exchanges began to fall rapidly towards the end of 1794, and in May, 1795, had reached such a depression as to make it profitable to export bullion, and this circumstance, as well as the knowledge that several foreign loans were in progress, should have warned the directors of the necessity of contracting their issues; such was the course laid down by the directors in 1783. Instead of that, their issues were greatly extended. In the quarter from January to March, 1795, they stood higher than they had ever done before, though we must in common fairness acquit the directors of the whole blame. The amount of their issues in August 1794, was little more than ten millions in February, 1795, it had increased to fourteen millions, but this was chiefly caused by the

* Appendix to Lords' Committee of Secrecy. No. 23. p. 170.

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bills which were drawn on the Treasury on behalf of foreign governments, which were made payable at the Bank. The directors had then to choose between endangering their own safety, or declaring the government bankrupt.

107. All these concurrent causes which we have detailed, began to produce their full effects in the autumn of 1795. The drain commenced in September, and proceeded with alarming rapidity. On the 8th October, the Bank made a formal communication to government, that it excited such serious apprehensions in their minds, that they felt it an absolute necessity that the advances to the government must be diminished. They reminded him of the warning they had given in the beginning of the year as to the danger of the foreign loans, which had been fully verified, and that numerous other payments must shortly be provided for.* That the market price of gold was then £4 4s. per ounce. Under these circumstances, the Bank could lend no further assistance to the government. On the 23rd of the same month, the directors having heard rumours of a new loan, waited on Mr. Pitt, who professed that he had not, at present, the most distant idea of one. On the 18th November, the governor informed Mr. Pitt that the drain continued with unabated severity, and that the market price of gold was £4 2s. per ounce, and said that rumours were in circulation that another loan was intended, notwithstanding Mr. Pitt's denial of it so lately.† Mr. Pitt said that since their last interview the successes of the Austrians had been so great against the French, that he was of opinion that it would highly conduce to the common cause to aid them with another loan, not exceeding £2,000,000, but he added

* Lord's Committee of Secrecy, p. 152. † Ibid, p. 153.

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that if such a course would be hazardous to the Bank, every other consideration should be overlooked, and the loan abandoned.

108. Parliament met on the 29th October, in the midst of great public excitement and dissatisfaction. The king was saluted with loud hootings and groanings, and volleys of stones were flung at his carriage, as he went to open the session. The speech said that he had observed for some time past, with the greatest anxiety, the very high price of grain, and that this anxiety was much increased by the deficiency of the harvest that year.* A committee of the House of Commons was immediately afterwards appointed to consider the high price of corn. In December,† the House came to strong resolutions as to the necessity of diminishing the consumption of wheat, as much as possible, and the members of both Houses signed an engagement to diminish the quantity by at least one third, and to use their influence to persuade others to do the same; and an Act was passed offering heavy bounties for the importation of corn.

109. This project of a loan going on, and being now proposed to be £3,000,000, the court of directors after a very solemn deliberation, on the 3rd December, came to the unaminous resolution that if the loan proceeded they had the most cogent reasons to apprehend very momentous and alarming consequences, from the actual effects of the last loan, and the continued drain of specie and bullion. In answer to this representation, Mr. Pitt solemnly promised them that he should lay aside all thought of it, unless the situation of the Bank should so alter, as to render such a loan of no importance to them.‡

* Parl. Hist. Vol. XXXII. p. 144.

† Ibid. p. 687. ‡ Ibid. p. 146.

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110. The directors at last found that it was absolutely necessary to choose between making the government bankrupt, and taking stringent measures to restrict their accommodation to the merchants. They resolved to fix beforehand the amount of advances they could make day by day, and gave notice that if the application on any day exceeded the sum so resolved to be advanced, a *pro ratâ* proportion of each applicant's bills should be returned without regard to the respectability of the party or the solidity of the bills.

111 As matters continued to get worse, the directors had several communications with Mr. Pitt, in January and Feburary, 1796, but the project of the foreign loan being much dwelt upon with much earnestness by Mr. Pitt, on the 11th of February they came to a resolution which was communicated to him the same day *

"That it is the opinion of this Court founded upon its experience of the effects of the late Imperial loan, that if any further loan or advance of money to the Emperor, or other foreign state, should, in the present state of affairs, take place, it will in all probability prove fatal to the Bank of England.

"The Court of Directors do therefore most earnestly deprecate the adoption of any such measure, and they solemnly protest against any responsibility for the calamitous consequences that may follow thereupon."

Mr. Pitt replied that after the repeated promises he had made that no further loan should be made without communication with the Bank, and a consideration of their circumstances, he saw no occasion for these resolutions, and that he should regard them as having been made in a moment of needless alarm.

* Lords' Report. 1797. p. 145-6.

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112. We have already seen from Mr. Pitt's conduct in the affair of the clause relating to the advances on treasury bills, that he was not bound by any very scrupulous notions of honor. On this occasion he departed still further from the right path, for, notwithstanding all his solemn promises, so frequently and emphatically made, the directors discovered that remittances were still continuing to be clandestinely made. In several interviews with him, the Governor of the Bank stated that he apprehended these remittances were being made, but Mr. Pitt did not offer any explanation, and it was afterwards ascertained that they were going on.*

113. Under the influence of all these combined drains of specie, the exchanges with Hamburgh were in a state of extreme depression, during the first three months of 1796. Sir F. Baring† shews that during January the profit was £7 10s. per cent.; during February £6 10; and during March £8 7s. 6d. in transmitting gold to that place. At length the several drains began to diminish. An abundant supply of corn was obtained. The continued contraction of the bank issues, and the cessation of the transmission of specie, caused the exchanges to assume a favourable aspect in the beginning of April, and it continued steadily to increase till February, 1797.

114. The stringent measures adopted by the Bank to contract its issues, caused much complaint amongst mercantile men, and a meeting of bankers and merchants was held at the London Tavern, on the 2nd April, who resolved, that an alarming scarcity of money existed in the City of London, which was caused chiefly, if not entirely, by an increase in the commerce of the country, and the

* Lords' Committee of Secrecy, 1797, pp. 52, 53, 58, 60.

† Observations, &c. p. 49.

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great diminution of mercantile discounts by the Bank. They resolved that if means could be found to augment the circulating medium, without infringing the privileges of the Bank of England, so as to restore the amount to what it was before the contraction of discounts, it was the duty of every friend to trade to give such a plan the most earnest support.* The meeting appointed a committee to prepare a plan for such a purpose. Mr. Boyd drew up a long report on behalf of the committee, which proposed that a board of twenty-five members should be appointed by parliament, who should be authorized to issue promissory notes, payable at six months after date, bearing interest at 1¼d. per £100 per day, upon receiving the value in gold and silver, Bank of England notes, or in bills of exchange having not more than three months to run.† The committee had an interview with the Chancellor of the Exchequer on the subject, and he informed them that the directors of the Bank had proposed as a remedy, that the floating debt should be funded, which plan he determined to try before adopting their plan. This was accordingly done, but it produced no relief.

115. Mr. Pitt had never fulfilled his promise so often repeated to the directors, that the advances on treasury bills should be reduced to £500,000; on the 14th June, 1796, they stood at £1,232,649. At the end of July, he sent an earnest request to have £800,000 at once, and a similar sum in August. They were induced to consent to the first, but refused the second advance. Mr. Pitt said that the first advance without the second would be of no use to him, and begged them to reconsider their decision. The Directors thus pressed, were driven to

* Letter to Mr. Pitt on the Stoppage of Issues in Specie by the Bank of England, 1801. p. 89. by Mr. Boyd. † Ibid. p. 97.

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assent to it, but they accompanied it with a most serious and solemn remonstrance which they desired to be laid before the cabinet. They said that nothing under present circumstances could induce them to comply with the demand, except the dread of a worse evil following the refusal,* and they said that this advance would incapacitate then from granting any further assistance during the year. They closed their remonstrance by saying,—

"They likewise consent to this measure in a firm reliance that the repeated promises so frequently made to them, that the advances on the Treasury bills should be completely done away, may be actually fulfilled at the next meeting of parliament, and the necessary arrangements taken to prevent the same from ever happening again, as they conceive it to be an unconstitutional mode of raising money, what they are not warranted by their charter to consent to, and an advance always extremely inconvenient to themselves."

However, in November, Mr. Pitt made a fresh demand upon them for £2,750,000 on the security of the Land and Malt Taxes of 1797, which was granted on condition that the advances on treasury bills amounting to £1,513,345 were paid out of it.

116. Mr. Pitt took the money but never paid off the bills. The directors again sent on the 1st February, 1797, to demand payment of them, as they then amounted to £1,554,635, and would in a few days be increased by nearly £300,000 more. Mr. Pitt made many excuses for the non-payment, and promised to make an endeavour to do so, but he dropped a hint that another large sum of bills had come in from St. Domingo. Upon being pressed as to the amount, he said that it was about £700,000. The governor expressed the greatest apprehen-

* Lords' Report, 1797. p. 163.

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sions, and begged him to delay the acceptance as long as he could. Mr. Pitt then hinted that he should want a large sum for Ireland which he said would be about £200,000. The governor assured him that the drain of cash had been continuous and severe of late, and that such a demand would be very dangerous.

117. The enormous failures of the country bankers in 1793, had been followed by a permanent diminution of the issues of country banks to a prodigious extent. Mr. Henry Thornton,* after instituting extensive enquiries in different parts of the country, stated as the result, that the country bank notes were reduced by at least one half, and that the wants of commerce had caused a very large quantity of guineas to be drawn into the country, to supply their place. Meantime, as we have already observed, although the foreign exchanges had become favourable, the Bank still continued to adhere with the utmost severity, to its policy of restriction throughout the autumn of 1796, and during the last three months they were no higher than they had been in 1782, with an amount of commerce many times larger than in that year. Commercial payments required to be made in some medium in which the public had confidence. As the public could not get notes, they made a steady and continuous demand for guineas. The bullion in the Bank, in March, 1796, was £2,972,000; in September, £2,532,000; and in December, £2,508,000, When a drain set in more severely than ever.

118. At this period the political situation of the country was in the most gloomy condition. The warlike combinations of Mr. Pitt had totally failed, and all Europe was now smarting under the consequences of

* Lords' Report, p. 74.

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their suicidal folly in meddling with the French Republic. Mr. Burke had pronounced in 1790,* that France was, in a political light, expunged from the system of Europe, that it was doubtful whether she would ever appear in it again. That *Gallos quoque in bellis floruisse audivimus* would possibly be the language of the next generation. So much for political prophecy! That country which had been supposed to offer so easy a prey to surrounding nations, and whose epitaph Mr. Burke had suggested, was now the most powerful State in Europe. She had quelled internal dissensions in torrents of blood, and poured forth her armies in a resistless torrent to avenge herself upon the haughty States which had presumed to meddle with her internal condition. Great Britain, which had commenced the war with every other State in Europe as her ally, was now left alone. The Directory had subdued Spain by artifice and negociation, and concluded a treaty with her, offensive and defensive, at St. Ildefonso, on the 19th August. The campaign of Napoleon in 1796, in the North of Italy, is generally allowed to be equal, if not superior in brilliancy, to any subsequent one. By a series of marvellous victories, he drove the Austrians out of Italy, and in the beginning of 1797, Rome was only saved from conquest by absolute submission at Tolentino; and, within a month, Venice was annihilated, and Austria sued for peace at Leoben. This great reverse of circumstances had strengthened the party who had always been advocates for peace in England, and Mr. Pitt was compelled to make overtures for peace in October, 1796. A British envoy was sent to treat with the Directory, and he staid in Paris for two

* Life and Works. Bohn's Edition. Vol. II. p. 376. Speech on Debate on the Army Estimates, 9th February, 1790.

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months; but as neither party was sincere, the treaty came to nothing. The fact was, that peace was the furthest thing possible from the thoughts of the Directory. After the conquest of La Vendee, they had an army of 100,000 men set free, under a general who is usually acknowledged to have been the equal of Napoleon in military talent, and who was burning to emulate his exploits in Italy. While the pretended negociations for peace were going on, the Directory were organizing an immense expedition for the invasion of Ireland. The orders to sail were transmitted to it several weeks before the British envoy was expelled from Paris, and it actually sailed two days before he left. Fortunately this great armada was dispersed by a tempest, a few straggling vessels reached Ireland in the last week of December, but the rest were obliged to put back to France.

119. This terrible menace which had been so long hanging over the country, and whose destination it was vain to conceal, inspired the utmost alarm, and there was a continual demand for guineas in Ireland. The year 1797 commenced with the most gloomy apprehensions and depression; the country bankers discerned that the first burst of the storm would fall upon them, and determined to provide for it, by obtaining as much specie as they could from London,* and accordingly the drain continued with increased rapidity after the beginning of the year.

120. Mr. Pitt had hinted in his interview with the Governor of the Bank on the 1st February, that a loan for Ireland would probably be required, which would probably not exceed £200,000, but soon afterwards the directors was struck with dismay on hearing that

* Lords' Committee, 1797.—Evidence of Mr. Thornton, p. 76.

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the amount required was £1,500,000. On the 10th February the directors came to a resolution that before they could entertain any proposal for the Irish loan, the government must pay off debts to them amounting to £7,186,445, of which they handed him in the details.

121. At this time the banks at Newcastle had a more than ordinary demand upon them for cash. In addition to the manufactories and collieries, the number of troops stationed in that part of the country had been considerably augmented. The banks had imported an extra supply of cash to meet their purposes, and were negociating for more when an event happened which brought on the crisis. A French frigate went into one of the Welch harbours and landed 1,200 men. At the same time an order came down from government to take an inventory of the stock of the farmers all along the coast, and to drive it into the interior if necessary. These circumstances created a perfect panic among the farmers: on Saturday the 18th February, being market day, the farmers who at that time of year had the principal parts of their rents in their hands, actuated by the terror of an immediate invasion, hurried into Newcastle the produce of their farms, which they sold at very low prices, and immediately rushed to the different banks to demand specie. Seeing this universal panic, the banks came to an agreement to stop payment on the Monday, if the panic did not subside, which they accordingly did.*

122. On the 21st February the state of the Bank became so alarming that the directors resolved that the time had come when they must make a communication to the government. The quantity of bullion had been

* Commons' Report, 1797.—Evidence of Mr. Burdon, p. 71.

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rapidly diminishing, and the constant calls of the bankers from all parts of the town for cash, showed them that there must be some extraordinary reason for it. Mr. Pitt was aware that this proceeded from the general alarm of invasion, which he thought was magnified much beyond anything to warrant it.* It was agreed that a frigate should be sent over to Hamburgh to purchase specie. On the 24th of February, the drain became worse than ever, and inspired them with such alarm for the safety of the House that they sent a deputation to Mr. Pitt to ask him how long he considered the Bank should continue to pay cash, and when he should think it necessary to interfere. Mr. Pitt said it would be necessary to prepare a proclamation to put a stop to cash payments, and to give parliamentary security for the notes. But in that case it would be necessary to appoint a secret committee ofth e House to look into the affairs of the Bank. The deputation assured him that the Bank would readily agree to this; and it was resolved to call a meeting of chief bankers and merchants of London to come to some resolution for the support of public credit in this alarming crisis.

123. The news of the stoppage of the Newcastle banks spread like wildfire throughout the country, and soon reached the metropolis. The drain upon the bankers' coffers now became a run; the first serious apprehensions that danger was imminent, were felt on the 21st February,† but the drain then became unexampled, till on Saturday, the 25th, the cash was reduced to £1,272,000. Before this, the directors, in a state of utter bewilderment at the state of the country, had used the

* Commons' Report, 1797.—Evidence of Mr. Burdon, p. 193.

† Lords' Committee, 1797, p. 13.

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most violent efforts to contract their issues. In five weeks they had reduced them by nearly £2,000,000. On the 21st January, they were £10,550,830; on the 25th February, they were £8,640,250.* But even this gave no true idea of the curtailment of mercantile accommodation, for the private bankers were obliged for their own security to follow the example of the Bank. In order to meet their payments persons were obliged to sell their stock of all descriptions, at an enormous sacrifice. The 3 per cents. fell to 51, and other stock in proportion.

124. On Saturday, the 25th, the Court felt that the fatal hour was at last come, when they must for the first time since its institution, come to a total suspension of payments. A meeting of the Cabinet was held on Sunday, at Whitehall, and an order in council was issued, requiring the directors of the Bank of England to suspend all payments in cash, until the sense of parliament could be taken on the subject.†

125. The king, the next day, sent a message to parliament, to inform them of the step that had been taken, and recommended the subject to their most serious and immediate attention. Mr. Pitt moved that the message should be taken into consideration the next day, and that he should propose that a select committee be appointed to investigate the state of the Bank's affairs, which he believed were in the most solid condition.

126. The directors of the Bank had the order in council printed and widely circulated, and issued a notice of their own to say that the general concerns of the Bank were in the most affluent and prosperous condition, and such as to preclude every doubt as to the security of its

* Lords' Report, 1797, p. 177. † Parl. Hist. Vol. XXXII. p. 1517.

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notes. At this time the cash in the Bank was reduced to £1,086,170.

127. The relief produced at the instant, by the definite determination to suspend cash payments and extend their issues of paper, was very great. Within one week it increased its accommodation by nearly two millions. On the same day a resolution was entered into by 4,000 of the merchants, in the city, to combine to support the credit of the notes.

128. Both Houses of Parliament appointed committees to examine into the affairs of the Bank. The committee of the House of Commons reported the outstanding obligations of the Bank, on the 25th February, were £13,770,390, and the total amount of their assets, £17,597,280, leaving a surplus of £3,826,890 over and above the debt of the government, amounting to £11,686,800, which paid them 3 per cent.

129. Both Houses reported that it was advisable for the public interest that the suspension of payments should be continued for a limited time, and a bill for that purpose was accordingly brought in. After some debates, which threw very little light on the subject, the Act (Statute 1797, c. 45,) was passed. Its chief provisions were:—

1. A clause of indemnity to the Bank and all connected with it, for anything done in pursuance of the order in council.

2. The Bank forbidden to make any payments in cash to any creditors, except in certain cases, and protected from all law proceedings.

3. The Bank might issue cash in payments for the Army, Navy, or Ordnance, in pursuance of an order from the Privy Council.

4. The Bank was to make no advance above £600,000 for the public service, in cash or notes, during the restriction.

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5. If any person deposited any sum, not less than £500, in gold, in exchange for notes in the Bank, it might repay three-fourths of the amount.

6. It might advance £100,000 in cash to the bankers of London, Westminster, and Southwark, and to the Bank of Scotland and the Royal Bank of Scotland £25,000 each.

7. Payment of debts in bank notes to be deemed as payments in cash, if offered and accepted as such.

8. No debtor was to be held to special bail, unless the affidavit stated that payment in bank notes had not been offered.

9. Bank notes would be received at par, in payment of taxes.

10. Bank might issue any cash it received since 26th February, upon giving notice to the Speaker of the House of Commons, and advertising in the London Gazette, and on the Royal Exchange.

11. The Act to continue till the 24th June.

130. An Act was also passed to enable the Bank to issue notes under £5, (Statute 1797. c. 28) and by c. 32 this power was extended to the country banks, but they were to continue liable to pay money on demand for them, and in failure of doing so within three days after demand, any justice of the peace might cause the amount and costs to be levied by distress.

131. All banking companies and bankers in Scotland were allowed to issue notes payable to bearer on demand for any sum under 20s.

132. We cannot refrain from noticing that in the debate on this measure, Mr. Pitt expressed the identical views on the subject of the circulating medium that are the leading principles of this work. He said, "As so much has been said on the matter of a circulating medium, he thought it necessary to notice that he did not for his own part take it to be of that empirical kind which had been generally described. IT APPEARED TO HIM TO CONSIST IN ANYTHING THAT ANSWERED THE GREAT PURPOSES

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OF TRADE AND COMMERCE, WHETHER IN SPECIE, PAPER, OR ANY OTHER TERMS THAT MIGHT BE USED.*

133. An event of such portentous magnitude as the suspension of cash payments by the Bank of England, of whose effects there had been no previous experience, could not fail to give rise to the most conflicting opinions as to the necessity of the measure, of the course of conduct of the directors which led to it, and as to the policy which ought to have been adopted under the drain which occurred in the last week of February, 1797. Many men of great eminence and ability changed their opinions in after times when they came to look back upon the subsequent events. In examining this question so as to form a just estimate of the conduct of the directors, we must remember that they were not masters of their own policy. They were distracted by two antagonistic claims, both of which they conceived it impossible to satisfy at the same time, namely, that of the Chancellor of the Exchequer, and the demands of commerce. They considered that if they advanced to the government they must contract their issues to merchants, and as the minister was the more powerful and imperious party of the two, they were obliged to yield to his power.

134. Several of the directors being examined before the committees, unanimously attributed the necessity of stopping payment to the enormous amount of their advances to government, and they gave it as their decided opinion, that if the government had repaid these advances as they ought to have done, that this great catastrophe would have been avoided. We may take it, therefore, as admitted on all hands that if they had been repaid by government, they would have very greatly extended their

* Parl. History, Vol. XXXIII. p. 342.

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advances to merchants. The real question then, is, considering that they were under such advances to government, would it have been prudent to have been more liberal in their accommodations to merchants.

135. Mr. Henry Thornton was very strongly of opinion that the excessive contraction of the bank notes had produced the most injurious effects in shaking public credit of all descriptions. That the excessive reduction of notes had caused an unusually severe demand for guineas, that the great public distrust was directed against country bank notes, and that the Bank of England ought to have extended their issues, to supply the place of the country notes.*

136. Mr. Walter Boyd, an eminent merchant, was very clearly of opinion that the restrictions upon the issue of notes by the Bank was the chief cause of the forced sale and depreciation of the public securities, and if the Bank had only maintained its issues at the same height as they were in December 1795, the drain of specie from the Bank, as well as the embarrassments in the mercantile world, would have been avoided, and a great portion of the fall which public securities had experienced, would have been prevented.†

137. Mr. George Ellison, who was secretary to an association of a great part of the country banks, considered that the quantity of the coin in the country was greater than it was in 1793, though a very considerable part was hoarded away owing to the public alarms that were abroad. He attributed the great public distrust to the remembrance of the conduct of the Bank in 1793, when it suddenly contracted its discounts, just at the period when they were most wanted.

* Evidence, Lords' Committee, 1797. p. 80.—Commons' Committee, p. 91. † Evidence, Lords' Report, p. 113, 114.

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138. The committee of the Lords called the attention of the House very strongly to these opinions, but they did not venture themselves to pronounce an opinion on their justness.* The committee of the Commons went considerably nearer towards approving of them.† In the year 1810, the governor of the Bank being examined before the Bullion Committee, stated that after the experience of their policy of restriction, many of the directors repented of the measure,‡ and the Bullion Committee explicitly condemned the policy of the Bank both in 1793 and 1797.§

139. The directors of the Bank acting in the midst of such unprecedented circumstances, and so tremendous an emergency, are entitled to have their conduct examined with all forbearance. But taking all these circumstances into consideration, we cannot fail to acquiesce in the opinion expressed by so many eminent bankers and merchants at the time, by the subsequent avowal that experience had led many of the directors to repent of the policy they then pursued, and by the decided opinion of the Bullion Committee, that the policy pursued by the Bank in this momentous crisis was erroneous, and that the severe restrictions they attempted to place upon commerce, very greatly contributed to bring on the calamity by which they were subsequently overwhelmed. Nothing, in short, could be more unhappy than their regulations of the amount of their issues. When the exchanges were violently adverse, so that it was enormously profitable to export gold, they enlarged them to an extravagant extent, and when the exchanges were extremely favourable, so that gold was

* Report, p. 266. † Report, p. 12.
‡ Evidence of Mr. Whitmore, p. 110. § Report, p. 17.

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sure to flow in, they restricted them with merciless severity. The issues, which were £14,000,000 when the exchange was against the country, were reduced to £8,640,250, when they had been for several months eminently favorable. It appears from the entire evidence in the reports, that it was this excessive restriction of notes which drained their vaults during the autumn of 1796, and that if they had been more liberal in their issues, their vaults would have been much better replenished with cash.

140. This disaster was the second notable penalty which the country paid within four years for the unjustifiable monopoly of the Bank. Never was there a more unfortunate example of monopolizing selfishness; it would neither establish branches of its own in the country, nor would it permit any other private company of power and solidity to do so, whose credit might have interposed, and aided in sustaining its own. Moreover, when a failure of confidence was felt in the country notes, it refused to supply notes of its own to supply their place. The power of issuing what plays so important a part in commerce, was absolutely forbidden to wealthy companies, and left in unbounded freedom to private persons, many of whom had no capital or property to support their issues, and whose credit vanished like a puff of smoke, in any public danger. The Bank consequently was left to bear the whole brunt of the crisis, solitary and unsupported, and finally succumbed.

141. From the foregoing considerations, as well as the weight of authority on the subject, we can scarcely have any room to doubt that the suspension of cash payments was brought about at that particular time, by the erroneous policy of the directors. We must in candour state that it appears open to much doubt whether any

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management, however skilful, could ultimately have saved them from such a disaster during some period of the war. Several of those who concurred in the measure at the time, after their judgment had been corrected by experience, expressed their regret at having done so; Sir Robert Peel, in 1844, said it was a "fatal" measure. Notwithstanding, however, the concurrence of so many weighty authorities,—and this is peculiarly a case where great authorities carry much weight,—we cannot help thinking that it was fortunate that it occurred at this early period. The alarm and dangers which preceded its stoppage were comparatively slight compared to those which menaced the country after that event. The mutinies in the fleet, the rebellion in Ireland, the enormous accumulation of troops on the heights of Boulogne flushed with victory, and led by a more fortunate, though probably not a greater soldier than Hoche, and burning with zeal for the invasion of England, were dangers of such portentous magnitude as to render it to the last degree improbable that any paper currency convertible into gold could have survived them. That Montague was a greater and more successful financier than Pitt, can, we think, scarcely be doubted, and the carrying through the re-coinage of the silver, in the midst of so much public distress, was a financial operation, of which the audacity, skill, and success, must ever be regarded with admiration. But it must be remembered that the crisis in that reign lasted a much shorter time than the revolutionary war, and was never fraught with so much real danger to the independence of the country. At that period there was no paper credit, except the notes of the Bank of England, and William was at the head of a great European confederacy against one overgrown power, so that the circumstances of the two periods were

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in no way parallel, but rather, we may say, reversed. The confederacy against England at the latter period, was far more menacing and formidable than the alliance against France. The fortunes of the British Empire were apparently at their lowest ebb in 1798, and there seemed to be but one thing wanting to complete the destruction of the country—the loss of public credit. However great and invaluable are the blessings of a paper currency in time of peace, there does not appear to be any instance of its having successfully withstood the danger of an invasion by a foreign enemy. Even in Scotland, were it had been confessedly conducted upon a better system, and obtained the confidence of the country to a much greater degree, it could not have withstood the dread of invasion, if it had not been for the timely assistance of the Bank of England. And if it could not do so in that country, where the danger was remote, it is not probable that it could do so in England, where not only it was of much inferior stability, but was the very part of the empire aimed at, and first exposed to danger. The constant power of producing public embarrassment by demands for gold would have been a powerful weapon in the hands of the enemy, in which they would have found many to support them in this country from political sympathy. This measure, therefore, removed one perpetual source of terror and alarm from the ministry. We shall shew in the next chapter that the great depreciation of the currency which took place some years later, was not by any means a necessary consequence from such a measure, but was produced by the infatuated perversity, both of the government and of the Bank of England, who with fatal obstinacy persisted in a system combining almost every false principle that could be thought of. As the suspension, then, must, we think, have taken

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place sooner or later, it was probably advantageous for the country that it did occur so early in the struggle.

142. The presumed scarcity of guineas, which led to the supposed necessity of issuing the order in council, also rendered a more abundant supply of the circulating medium necessary, and an Act was immediately passed suspending, till the 1st May, the Act (Statute 1775. c. 51) restraining the negotiation of small promissory notes. In a few days the Bank caused to be prepared and issued £1 and £2 notes, and to supply still further the demand for a small currency, they issued a notice that they had imported a large number of Spanish dollars, which were to be current at 4s. 6d. However, it was discovered that the dollars were undervalued by 2d. each, so their current value was enhanced by 3d. These dollars were stamped with a small king's head. The Bank having put the dollars into circulation at 1d. each above their intrinsic value, the bullion merchants were not slow in seizing the advantage, and imported an immense quantity of similar dollars, which they had stamped in a similar manner. They were all called in on the 31st October, 1797, by which time the Bank had put 2,325,099 into circulation. It at first attempted to refuse payment of the forged ones, but they were executed in so close imitation of the real ones that it was impossible to detect them, and they were obliged to pay them all.

143. When the actual suspension took place, the foreign exchanges were highly favourable, so much so as to make it profitable to import gold, which began to flow in in great abundance. On the 30th May, Mr. Manning stated in the house, that vast quantities of gold had flowed into the Bank, both from the country and from abroad.* The government, however, and the directors of

* Parl. Hist. Vol. XXXIII. p. 783.

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the Bank concurred in thinking that it would be imprudent to resume payments in cash at the period when the restriction Act expired, and it was prolonged to one month after the meeting of the next session of Parliament.

144. Parliament met again on the 2nd November, and on the 15th the House of Commons appointed a secret committee to enquire whether it was expedient to continue the restriction. On the 17th they reported that on the 11th of that month, the total liabilities of the Bank were £17,578,910, and their assets £21,418,460, leaving a balance in their favor of £3,839,550, exclusive of the government debt of £11,686,800. That the advances to government had been reduced to £4,258,140, while the cash and bullion were five times the sum they stood at on the 25th February last, and much above what they had been at any time since September, 1795. That the exchange with Hamburgh was unusually favorable, and had every appearance of continuing so, unless political circumstances should affect it. That no inconvenience seemed to be felt by the bankers and traders of London, for whereas by law, they were entitled to demand three-fourths of any deposit in cash they might make, they had only actually demanded one-sixteenth. They presented a resolution of the Directors, stating that the condition of the Bank's affairs was such that it could with safety resume its usual functions. The committee, however, recommended that in consequence of the state of public affairs, it was advisable that the restriction should be continued for a further period. After a short debate, an Act was passed to continue the restriction until one month after the conclusion of a definite treaty of peace.

145. The opposition in parliament and in the country to the policy of the ministry was very powerful, and the transactions between the Bank and the government

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were severely commented upon by the leaders of that party in parliament. They however did not venture to divide against the bill. In the course of the discussion, however, Sir William Pulteney spoke with very great ability against the national evils and inconveniences of the monopoly of banking by one company, and moved for leave to bring in a bill to establish another bank in case the Bank of England did not resume cash payments on the 24th June. His speeches on this and a subsequent occasion were full of admirable argument, but the interests arrayed against him were so strong that leave was refused to bring in the bill by a majority of 50 to 15.

146. The exchange with Hamburgh at the time of the suspension of cash payments was 35.10,* it continued to improve throughout the whole of that year, and in December stood at 38.5, which was about £13 per cent. above par; the issues of the Bank were about 11½ millions during the year. This extraordinary state of the exchanges continued during the whole of 1798 when they began gradually to fall, and in March, 1799, they were at 37.7, which was still £11 6s. above par. This was of course followed by a very great influx of gold, and at the end of 1798, the Bank had upwards of £7,000,000 in its vaults, and the directors expressed their readiness to the government to resume payments in cash. The Ministry, however, thought it inexpedient in the state of the country.†

147. The harvests of the two preceding years had been unusually abundant, and in January, 1799, the prices of all sorts of corn were extremely low, wheat being 49s. per quarter, and other kinds in proportion, but the winter of 1798-9, was extremely rigorous and unfavorable for

* Bullion Report. p. 198.

† Tooke's Hist. of Prices. Vol. I. p. 207.

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farming operations. The spring was equally unfavourable, and in May, wheat was at 61s. 8d. This was followed by an extremely wet summer and autumn,* so that at the end of the year wheat was at 94s. 2d. In February, 1800, the subject of the scarcity was taken up in both houses, Lord Auckland said that it was estimated that the produce of last year's crop was little more than half average.† Under the influence of this unparalleled deficiency the price of wheat rose in June, to 134s. 5d., and remained at the end of the year at 133s.‡ after having fallen for a short period to 96s. 2d. in consequence of large importation introduced by the temptation of heavy bounties.

148. Under the influence of the enormous importation of wheat the exchange with Hamburg continued to decline all through the summer of 1799, till in the last week of August, it had fallen to par. It continued steadily to decline after that until in December, 1800, it reached 30s. In the mean time the price of foreign gold in coin, which had been at £3 17s. 6d. in May, 1797, rose to £4 in December, and continued at that price till September, 1799. In June, 1800, it rose to £4 5s., and in December, to £4 6s.

149. The arguments and ability of Sir William Pulteney in advocating the foundation of another bank produced great effect, and during 1799 it excited great public interest. Meetings were held for the purpose of promoting it, and numerous pamphlets were published on the subject. The Bank directors took alarm, and as the minister was in want of a supply, they took advantage of his necessities to obtain a prolongation of their monopoly.

* Tooke's Hist. of Prices. Vol. I. p. 214.
† Parl. Hist. Vol. XXXIV. p. 1469.
‡ Tooke's Hist. of Prices. Vol. I. p. 216.

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The charter had still twelve years to run, but upon advancing £3,000,000 without interest for six years, Mr. Pitt agreed to renew it for twenty-one years from 1812. Very soon after the opening of the session of 1800 a bill for this purpose was brought forward and passed.

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CHAPTER IX.

FROM THE RENEWAL OF THE BANK CHARTER IN 1800 TO THE ACT FOR THE RESUMPTION OF CASH PAYMENTS IN 1819.

GREAT DERANGEMENT OF THE IRISH CURRENCY IN 1804—PARLIAMENTARY INVESTIGATION INTO IT, AND REPORT OF THE COMMITTEE—SPECULATIONS IN ENGLAND IN 1808, AND FOLLOWING YEARS—GREAT DERANGEMENT OF THE ENGLISH CURRENCY—APPOINTMENT OF THE BULLION COMMITTEE IN 1810—ANALYSIS OF THE BULLION REPORT—DEBATES IN THE HOUSE OF COMMONS IN 1811, AND CONDEMNATION OF THE PRINCIPLES OF THE REPORT—GREAT CHANGE IN COMMERCIAL OPINIONS UPON THE SUBJECT—ADOPTION OF THE PRINCIPLES OF THE BULLION REPORT IN 1819, AND ACT FOR THE RESUMPTION OF CASH-PAYMENTS.

1. Soon after the year 1800, a remarkable phenomenon began to attract the notice of persons who had paid attention to the currency. We have just seen how lamentably deficient the harvest of 1799 had been, and the enormous quantities of grain it became necessary to purchase. The autumn of 1799, and the ensuing winter, were equally unfavourable as the preceding had been to all descriptions of farming operations. The spring of 1800 was exceedingly wet, and in the middle of the harvest heavy and continuous rains set in.* In consequence, the harvest time was even more calamitous than the preceding one. In the northern part of the island, the crops

* Tooke's Hist. of Prices. Vol. I. p. 217.

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were a total failure. Notwithstanding that the unprecedented quantity of 1,242,507 quarters of wheat were imported, prices continued to rise to a famine scale. The public peace was with difficulty preserved, and in November, when parliament met, the country was in a very alarming condition. Parliament pursued the usual course, recommended the most stringent economy in the consumption of provisions, and offered to guarantee 100s. a quarter to all who imported wheat. In spite of all these measures, wheat rose in March, 1801, to 156s., barley to 90s., and oats to 47s. In the autumn of 1799, failures of great magnitude took place in Hamburgh; 82 houses came down with liabilities amounting to £2,500,000. In consequence of these, discount rose to 15 per cent. Under the influence of the enormous sums of money that had to be sent abroad in purchase of grain, the attraction of this high rate of discount, and other causes, the exchange on Hamburgh, which had stood so high for some years, fell in January, 1801, to 29.8., being upwards of 14 per cent. against England.

2. We have already seen that in the great monetary crisis of 1696-7, it was universally acknowledged by parliament and the most eminent merchants, that it was the bad state of the coinage which produced the great rise in the market price of bullion, and the heavy fall in the foreign exchanges; and we have seen that the restoration of the coinage immediately rectified the exchange. At that time bank notes were not a legal tender, and the language invariably applied to them, when their current value differed from their nominal value, was that they were at a *discount*. When the men of that day saw that the bank notes were a promise to pay so many "pounds" on demand, and when they saw that the persons who issued them were unable to pay that number of pounds, and that

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no one would give that number of pounds for them, they never used any other expression regarding these facts, than that the notes were at a discount. There is no trace of any one having thought of saying that it was the notes that denoted the pound sterling, and that bullion had risen. When the reform of the coinage took place, and the exchanges were simultaneously rectified, it was said that the reform of the coinage *caused* the restoration of the exchange, and numerous merchants had written pamphlets to combat a delusion which was rather prevalent among some persons, that bullion as a commodity could have a different value to bullion as coin, except on account of the depreciation of the coinage.

3. Adam Smith had laid it down as a principle, that any permanent difference between the market and the mint-price of bullion must be necessarily caused by the condition of the coinage itself; and Hume had observed that the exchange never could vary but very little beyond the cost of the transmission of specie.* All these fundamental truths, which are as pure matters of demonstration as any proposition in Euclid, had been discovered and established long before the period we are now speaking of.

4. Such were the truths established when a metallic currency was the only one thought of, in estimating value. But at this time a new principle was introduced—there was what was substantially an inconvertible paper currency. At this period most men's ideas were transferred from the metallic currency to the paper currency. Ever since the issue of the £1 notes, people thought of them when they spoke of prices as being so many pounds. When the suspension of cash payments first took place, there

* Hume's Essay on Money.

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was a general expectation that the Bank notes would be depreciated, but the general resolution of bankers and merchants, to support the credit of the Bank, the determination of the government to receive Bank notes in payment of taxes at their par value, and the great caution exercised by the directors during the first few years after the restriction, had removed all these apprehensions, and for some years the Bank notes circulated at par.

5. At this time, however, phenomena occurred which directed the attention of many persons to the state of the paper currency. The market price of standard gold up to September 1799, had continued at £3 17s. 6d. per ounce, and the price of foreign gold in coin had been somewhat higher, on account of its greater use as coin than as bullion. But in June 1800, the price of foreign gold experienced a sudden and extraordinary rise; it rose to £4 5s. per ounce; silver rose 5s. 7d. per ounce; and the foreign exchanges fell below par. In January 1801, gold and silver had each risen 1s. per ounce, and the exchange at Hamburgh was at 29s. 8d. being a depression of 14 per cent. below par. But the expense of transmitting specie to Hamburgh was estimated not to exceed 7 per cent., and consequently there remained a difference of 7 per cent. to be accounted for.

6. It was at this time that the great and palpable truth was discovered, that if a deterioration of the coinage produced a rise of the market price of bullion above the mint price, and a fall in the foreign exchanges under a metallic currency, then that the opposite proposition was also necessarily true. That under a paper currency which was only the representative of a metallic currency, if the market price of bullion (*i.e.* the paper price) exceeded the mint price, and the foreign exchanges fell beyond the cost of the transmission of

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specie, that excess could only arise from the depreciation of the representative of the metallic currency, and therefore that when these circumstances occurred THEY INFALLIBLY INDICATED THAT THE PAPER CURRENCY WAS DEPRECIATED.

7. We are not certain to whom the merit of the discovery of this great and important truth is due. If he had not the actual merit of discovering it, Mr. Walter Boyd was certainly one of the first to proclaim it, and call public attention to it. It was enforced with much greater ability and clearness by Lord King,* and with not so much distinctness by Mr. Henry Thornton, in his Inquiry into the Effects of Paper Credit. To these three writers, however, as far as we have been able to ascertain, the merit is due of establishing this principle, which is as important in the subject of currency, as the Newtonian law of gravity is in astronomy.

8. The preliminaries of peace with France were signed October, 1801, at London, and the definitive treaty at Amiens, on the 27th March, 1802. The restriction on cash payments expired of itself six months after that event, but though the Bank declared that its coffers were well supplied with specie, and that it was anxious and ready to resume payments in cash, the Chancellor of the Exchequer, Mr. Addington, brought in a bill on the 9th April, 1802,† to continue the restriction till the 1st March, 1803, which was passed. The arguments alleged in favor of this measure, shew a wonderful decline in financial knowledge in the government of 1802 compared to 1696. At the latter period, the great reason alleged for the reformation of the coinage, was the adverse con-

* Thoughts on the Effects of the Bank Restriction, 1803.

† Parl. Hist. Vol. XXXVI. p. 540.

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dition of the foreign exchanges, and the rise of the market above the mint price, caused by the depreciation of the currency. Notwithstanding the vehement opposition of the enemies of the government, we have seen the triumphant success of the re-coinage, which restored the public credit and the exchange. The sagacity of a Montague would at once have seen that the adverse state of the exchange and the high price of bullion were entirely owing to the depreciated state of the currency, and that the only method of restoring them to par, was the immediate resumption of cash payments. So great, however, was the ignorance upon the subject, that the fact of the exchange being adverse, was the very reason alleged why cash payments should *not* be resumed! Sir. R. Peel said the course of exchange was at this moment against us all over Europe. Mr. Addington in bringing in the bill, said,

"It cannot be necessary for me to inform the house that the rate of exchange between this country and foreign parts is disadvantageous to ourselves—that the export trade has been for some months at a stand, that while the rate of exchange is disadvantageous *to us an augmentation of the circulating cash* would create a trade highly injurious to the commerce of this country. *For several months' past there has been a trade carrying on for purchase of guineas with a view to exportation.* It is on these grounds that I submit to the House the expediency of continuing the restriction with regard to the cash payments of the Bank."

Why, these were the very reasons why a return to cash payments should have been made without delay! The reason why the trade of buying up guineas was going on was just because of the redundant quantity of paper; the paper "promises to pay" were falling in value as compared to the guineas, and as a necessary consequence guineas were exported, and so far from a return to cash payments augmenting the circulating medium, it would

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infallibly have considerably diminished it by making the Bank reduce its paper issues. It was because the prices of articles were so high in this country that the export trade was unprofitable, and a reduction of the Bank notes would infallibly have compelled such a reduction in prices, as would have facilitated the export.

9. The result of this extraordinary amount of financial error could have been easily predicted. The circumstances of the country did not improve, as the ministry had taken the most effectual measures to prevent them doing so. In February, 1803, Mr. Addington had to come forward again to prolong the restriction. He said that the reasons which suggested it were too strong, and the necessity too urgent to be resisted.* The restriction was continued last session, because the exchanges were adverse —the exchange with Hamburgh was then at par—that with Amsterdam adverse. Upon these grounds, he said it was expedient to continue the restriction, until the progressive advance of our commerce would produce such a steady inclination of the exchange in our favour, as to render it safe to resume cash payments. That the scarcity of the last three years had made it necessary to export twenty millions of bullion in payment of corn, and until that came back, cash payments could not be resumed. Mr. Fox said that such a mode of arguing went to establish it as a general axiom that whenever the exchanges were adverse, cash payments of the Bank ought to be suspended; and then he touched the right point. "Perhaps even it might happen that the unfavourable turn of the exchange against this country *might be owing to the very restriction on the Bank.*† And he said —

* Parl. Hist. Vol. XXXVI. p. 1147.

† Ibid p. 1151.

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"In 1772 or 1773, when there was a great quantity of bad money in the country, the course of exchange was then also much against us, but when in the room of this adulterated money good gold was substituted, the consequence was that the exchanges turned almost immediately in our favour. As long as our currency continued bad, the exchange was against us, so it is now, *because paper is not much better than bad gold;* as it is attended with the same inconveniences. May it not, therefore, be expected that as in the former case, when our currency was ameliorated, the course of exchange turned in our favour, so also if the Bank now resumed its cash payments, the same favourable circumstances might attend the change?"

The trace of truth thus hit upon was not followed up, and while the directors of the Bank alleged that they were perfectly able to resume cash payments, the ministry enforced a continued restriction upon them, for political reasons, until six weeks after the beginning of the next session of parliament. In the Lords, Lord Pelham said that the idea of renewing the restriction at the present moment originated solely with the government, who had had no communication with the Bank on the matter. The great truth doubtingly hinted at by Mr. Fox, was much more strongly and fully stated by Lord King and Lord Moira in the House of Lords. The ministry complained that the importation of bullion was hanging fire; was it not plain that the reason was that its value in this country was depreciated by the plethora of paper? and the true way to attract it was by diminishing the quantity of the paper, and so raising the value of the gold. The bill was carried without a division.

10. If the resumption of cash payments was unadvisable under the preceding circumstances, the untimely end of the short and feverish peace in 1803, rendered it still more impracticable, and immediately upon the opening of the session a bill was brought in to continue the

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suspension. We find it stated* that the hoarding of guineas had been going on to such an extent, that it was with the utmost difficulty, that they could be procured for the common purposes of life. The Chancellor of the Exchequer talked of the baseness of such a practice, which was inconsistent with public spirit, and the duty of a good citizen. Precisely the same language had been held by the revolutionary leaders in the tribune of the French Convention regarding assignats. The debate in the Lords produced some excellent speeches. Lord Grenville, who had been of the cabinet who proposed the suspension originally, now gave very evident signs that his opinion was very much altered, and severely censured the attacks of the Chancellor of the Exchequer upon those who preferred to keep their guineas at home. Lord King now gave the clearest enunciation to the principles of a paper currency, which had before been rather feebly hinted at. He said—†

"The natural and only true limit of every paper currency was the power of compelling payment in specie, at the will of the holder. A paper currency not convertible into specie, had no rule or standard except the discretion of the persons by whom it was issued. To determine the quantity of currency necessary for circulation was in all cases a difficult and delicate problem. *A very strict attention to the price of bullion, and the state of the foreign exchanges, was alone capable of affording a just criterion by which the quantity could be truly ascertained.* Without a perpetual reference to these tests it was impossible to maintain the full value of the currency. That the Bank directors had failed in the performance of this duty was evident, from the enormous increase in the quantity of their notes, and the great derangements which had taken place in the price of

* By Mr. Jekyl. Parl. Debs. Vol. I. p. 1572.

† Parl. Debs. Vol. I. p. 1836.

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silver and the foreign exchanges since the period of the restriction. He said that the excessive quantity of Bank notes, by raising the market price of silver above the mint price, was one of the causes of the present scarcity of the silver coin."

11. The Act which restrained the Bank of England from paying in specie, also enacted that country bankers should be liable to discharge their notes in Bank of England paper. Hence the very same rules applied to the issue of the country banks, where paper was convertible into Bank of England notes, as formerly applied to the Bank paper when convertible into specie; and the country bank paper was based upon Bank of England paper, just in the same way as the latter had been based upon specie. So the directors of the Bank not only controlled their own issues, but those of every other bank in the country, and any excess of paper issued by them was immediately multiplied and propagated throughout the kingdom.

12. The facilities of communication with the metropolis, even in that age which we are now accustomed to consider as slow, as compared with our own, were sufficient to prevent any depreciation of a local currency in Great Britain, at least since 1765, when the Scotch notes were depreciated, on account of certain conditions they contained impeding their payment in gold on demand. But Ireland, from the distance of the sea passage, and the difficulty of access, might be considered as a foreign country, which resemblance was further promoted by its having a currency of its own, distinct from that of Great Britain. The Irish shilling in those days contained 13 pence, and as the pound, both English and Irish, was 240 pence, a slight calculation will shew that £100 English=£108 6s. 8d. Irish. Hence the par of

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exchange between England and Ireland was called eight and one-third.

13. Although there was no run upon the Bank of Ireland, and the exchange with England was favorable, and bullion was flowing in, the Bank of Ireland was directed by Parliament to suspend its payments in cash at the same time as the Bank of England, and an Act was passed by the Irish Parliament containing analogous provisions to the English Act.

14. Ever since the year 1794, the exchange at Dublin on London, had been uniformly in favor of Dublin, standing usually about £7 10s. In the first three months of 1797, it rose so high as £6 14s. 9d.; in the second three months it rose to £6 7s. 2d.; and in the third period of three months, it attained the very great height of £5 18s. 10d.; the highest it stood at on any day being £5 10s.* From that period it began steadily to decline, and it continued to fall progressively through each year, until in January, 1804, it reached the extraordinary depression of £18. No guineas were to be had for Bank of Ireland notes, except at a premium of 2s. 4d. or 2s. 6d. This enormous depression was noticed by Lord Archibald Hamilton, on the 13th Feb. 1804, in the debate on the Irish Bank Restriction Bill. He stated that when the restriction Act passed, the issues of the Bank of Ireland were £600,000, whereas now they were £2,700,000. He said that between Dublin and Belfast, though not more than 100 miles apart, there was a difference in the exchange of 10 per cent.,† and that in the exchange with London, it was sometimes as much as 20

* Report on the Irish Currency, 1804. p. 153.

† Parl. Debs. Vol. I. p. 1083.

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per cent. against Dublin. That gold coin rose in value just in proportion as paper was depreciated.

15. This great disorganization of the monetary business between the two countries, at length excited the serious attention of Parliament, and on the motion of Mr. Foster, a committee was appointed "to inquire into the cause of the present high rate of exchange between Great Britain and Ireland, and the state of the currency in the latter kindom." The committee consisted of Mr. Foster, Lord A. Hamilton, Lord Henry P etty, Lord Folkestone, Mr. Pitt, Mr. Fox, Mr. Grey, Mr. Rose, Mr. Canning, Sir W. Pulteney, Sir J. Newport, Mr. J. C. Beresford, Mr. Sheridan, and Mr. Brogden.

16. The circumstances which gave rise to the appointment of this committee and its report, are deserving of great attention, as they are the first regular investigation by parliament into the theory of the paper currency, and they were the antetype of what afterwards occurred in England, and gave rise to the appointment of the bullion committee.

17. The Bank of Ireland sent two of its directors over to be examined as witnesses, Mr. Colville and Mr. D'Olier. Mr. Colville stated that the issues of the Bank notes at the time of the restriction were between £600,000 and £700,000, but they were now about £3,000,000; and when asked the motives for such an extraordinary increase, said that the exchange became extremely adverse about two years after the restriction, the money of the country was carried out of it, for the purpose of paying the balances of remittances, and, consequently, as the medium of gold decreased *it became necessary to supply its place with paper*. He said that after the restriction, it was necessary to supply notes for the payments that would have been made in guineas, and this amount he

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placed at £1,200,000. He admitted* that before the restriction, whenever there was a drain of gold from the Bank, they were in the habit of diminishing its issues to strengthen themselves against the continuance of the drain. That whenever the exchange was unfavourable, the necessity for self-preservation compelled them to reduce their issues, and that this limitation was for the purpose of lessening the drain of guineas. But he said that it was generally thought that the extension of paper in Ireland, was the cause of the high exchange, but in his opinion it was directly the reverse, inasmuch, as far as the circulation of paper has supplied the circulating medium, it enabled the gold which before stood in its place to be exported out of the country, and so far was a clear and decided cause of preventing the exchange getting to a higher pitch; and he said that it must appear that his opinion was that the circulation of Bank paper in Ireland was in no shape the cause of the high exchange. He said that he clearly and decidedly considered the sole cause of the high rate of exchange to be that Ireland owed a great deal more money than she could pay. He considered the true criterion of such balance of debt to be the state of exchange between Dublin and London, and London and Dublin. That when the exchange was considerably above par, it was said to be against Ireland, and in that case, certainly at that time, Ireland owes more money than she is able to pay. Mr. Colville repeated these opinions several times, more often than it is necessary to quote. When pressed with the question whether the rates of exchange might be influenced by the value of the medium in which the balance of debts was paid, as, for instance, if it were paid in degraded or

* Report on Irish Currency, p. 103.

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adulterated coin, he admitted that it might be so with respect to *coin*, but he denied that such views in any way way applied to Bank of Ireland paper.* Mr. D'Olier coincided with these views, and attributed the state of the exchanges to the same causes. When asked whether it was possible,† in any case whatever, for there to be such an augmentation of inconvertible Bank paper as to diminish its value in exchange for goods, although the confidence that they might be paid off at some remote and indefinite period might be maintained, he said he thought it possible, but not probable. He said, "I have heard it stated that because gold is bought at a premium, that, therefore, Bank of Ireland notes are by so much depreciated, and at an absolute discount as to the amount of that premium. That was not the proper way to look at the question. The circulation said to be depreciated must first be proved to have become burdensome to the holders, and bargains to have been made by unnecessary purchasers to get rid of that which they found inconvenient, or were apprehensive to hold. The mere buying of gold at an advanced price beyond that of the mint, is the effect, and not the cause of the exchange, and, therefore, no proof of the depreciation of the paper itself." As both these witnesses maintained that the exchanges might be depressed to any extent by the mere fact of debts being due by the country, it is much to be regretted that the committee did not ask them if it were possible, in their opinion, for the exchange to be depressed beyond the limit of the expence of the transmission of bullion, and, if so, how it could be possible?

18. The description given by the witnesses of the

* Report on Irish Currency, p. 136. † Ibid, p. 106.

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state of the metallic currency was most astonishing.* Mr. D'Olier had some of it weighed. The base currency took about 126s. to the pound weight; the mint silver which was in circulation, was very scarce and very much worn, contained 94s. 6d. to the pound weight, whereas, when new from the mint, it contained 62s. to the pound weight. Of the base shillings, the best did not contain more than 6d., and the worst about 3d. These base pieces were coined and sold privately to agents who had the means of circulating them, at 28s. to 35s. the guinea. When such was the state of the metallic currency in Dublin, the provinces in the south were even worse off. One witness stated that the silver currency had totally disappeared from the southern parts,† that the vacuum was supplied by silver notes; that these silver notes had driven out the whole of the silver currency, and from their increased amount, as well as the increasing issues of private bankers' notes of every other description, prices had risen greatly. That the bad currency had been increasing most mischievously during the last twelve months, that there was still a very good supply of good silver in the south which was hoarded on account of these silver notes, but if they were suppressed, it would come into circulation again. He said all sorts of traders, as well as bankers, issued notes for 3s. 9½d. and 6s., payable at twenty-one days after date. He thought that the increase of the paper circulation augmented the state of exchange against Dublin. That the premium on guineas was a proof of the depreciation of the Bank notes; and that as the exchange rose the depreciation continued. That the premium on guineas was then 7 or 8 per cent. He himself had bought large quantities of guineas at a premium of 2s. 6d. each. In the north of

* Report, p. 88. † Evidences of Mr. Roach, p. 91.

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Ireland, however, all bills were payable in gold; they would have nothing to do with any paper currency, and while the exchange on Dublin was 16 (7 two-thirds below par) the exchange on Belfast was 7 or 8 per cent. (one-third above par). He argued that since the exchange in gold was favorable to Ireland, the real exchange must be in her favor, and that if any considerable quantity of gold come into circulation, it would at once tend to diminish the premium on guineas, and lower the rate of exchange. However, he thought that the high state of the exchange was a clear proof that the balance of payments was against Ireland annually. While no Bank of Ireland or private Bank notes could be exchanged for guineas, except on paying a premium of 2s. 6d. each, Bank of England paper bore exactly the same premium as guineas, and were received in every transaction as equivalent to guineas. And yet the directors of the Bank of Ireland maintained that their notes were not depreciated!

19. In the north of Ireland, where nothing but gold was current, and paper was tabooed, the exchange at Belfast with London had always continued favourable to Belfast, and even while the exchange at Dublin was progressively sinking, the exchange at Belfast continued to rise; thus the state of the exchanges during the years 1803 and 1804, when the committee were appointed, was as follows:—*

1803	Dublin.	Belfast.
Average of 1st quarter.....	£11 1 9	£7 12 6
2nd	13 8 11	8 8 8
3rd	15 17 0	7 12 6
4th	15 8 7	5 12 6
1804		
January 27th	18 0 0	6 0 0

* Report p.p. 159, 183.

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There was, therefore, at that time, a difference of 12 per cent. between the exchange at Dublin and at Belfast. Consequently, if the opinions of the directors of the Bank of Ireland were true, enormous payments were being made from Dublin to London, and a balance of payments was due from London to Belfast. However, Mr. Marshall, the Inspector-General of imports and exports, at Belfast, held a very different opinion with respect to Irish bank notes, for he appends to the table of exchanges prepared by him, this note—

"It has certainly been heretofore held as a maxim of commerce, that the balance of trade has in a great measure regulated the rate of exchange; and if specie was equally in circulation in England and Ireland as formerly, the criterion would no doubt still be tolerably just. *But the issue of paper in Ireland is so great as to make it subject to a heavy discount*, whilst in England it circulates without any depreciation at all. *I imagine the rate of exchange between the two countries therefore, is very much influenced by the rate of discount on Irish bank notes.*"

20. It is scarcely necessary to observe that if the opinion of the directors of the Bank of Ireland were true that the rate of exchange at Dublin on London was due entirely to the heavy debts due from Ireland to England, their townsmen must have been great simpletons to purchase bills on London in Dublin, at such an enormous sacrifice, when they could have got them at Belfast 10 to 12 per cent. cheaper. But it appeared that specie was at a premium of 10 or 12 per cent. in Dublin, so that the bills when paid for in *cash* were exactly the same rate in Dublin and Belfast.

21. In order to test the *fact* that the rate of exchange was due to the excess of payments owing by Ireland, the committee had evidence on the subject, and

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it appeared most decisively that so far from the balance of payments being against Ireland, there was a very large balance in her favour. The witnesses* differred as to the precise sum, but they agreed as to the fact of there being a large sum due to Ireland, and consequently that the exchange ought to be in her favour, *which was precisely the case at Belfast where payments were made in specie.* With this incontrovertible evidence before them, the committee did not hesitate to express their conviction that the real balance of pecuniary transactions was greatly in favour of Ireland, and that consequently the real exchange was and ought to be under par, and that they felt themselves compelled to seek in other causes than the balance of debts for the unfavourable exchange then existing between them.

22. We have already seen that when in 1696 the silver coinage was being recoined, a difference arose between Bank notes and specie of 20 per cent., and between tallies and specie of 40 per cent., it was universally said that Bank notes and tallies were at a discount of 20 and 40 per cent. There is no trace of any other language but that being applied to them. In the year 1804 Irish Bank notes were exchanged for specie at a difference of 10 per cent. so that with a guinea in specie, any one might purchase a guinea note and 2s. or more in silver. The merchants of 1696 would have expressed such a state of things by saying that the note had fallen to a discount of 10 per cent. But at this period a new mode of expressing it was discovered, it was stoutly maintained that it was not the paper which was depreciated, but the guinea which had risen in value! Thus, one witness being asked, "Do you know that the Bank of Ireland paper is

* Mr. Puget, p. 213.—Mr. Marshall, p. 123.

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depreciated ;" said, " I am not aware of it, because I should not say paper was depreciated, unless there was a forced issue of it, and that it was offered at a discount on all occasions. I should rather now say that gold is increased in value than the paper is depreciated." When asked, " What do you consider to be the best criterion of the depreciation of paper currency, an alteration of its value compared with the general property of any country, or its alteration compared with a given article, viz., guineas ?" He says, "I think the first the best criterion, because guineas may be wanted, as in the present case, for special purposes." It is somewhat surprising that the witness did not remember that Bank notes are a "promise to pay" guineas, and they are not a promise to pay another kind of property. When asked "Do you not conceive that the fact of a premium existing on English Bank notes in Ireland and exchanged for Irish bank notes, affords some indication that it is Irish paper which is depreciated, and not the price of gold which is locally raised ?" "I do not."* Other witnesses agreed in these opinions. When we consider the nature of an exchange, and the state of facts proved with regard to the Irish coinage, at that time, we might almost smile at these ideas, and attribute them to the peculiar methods of thinking which are sometimes prevalent on the western side of St. George's Channel. But we shall find that when a precisely similar state of things took place in England, with regard to the foreign exchanges, the very same doctrines were long and stoutly asserted by a very numerous party in this country, and would probably be so again under similar circumstances.

23. There was one witness, however, who held very different opinions—Mr. Marshall, the Inspector

* Evidence of Mr. Harman, p. 43.

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General of Imports and Exports. He said that there were shops in the principal streets of Dublin for buying and selling guineas, and that the retail price of a guinea then was a paper guinea and 2s. 2d. He said that at the end of December 1803, the price of a bill in Dublin upon London for £100 British was £116 10s., if bought with Irish Bank notes, but if purchased with specie the price was only £106 10s. Irish. The same thing was observable in all domestic transactions. The man with a gold guinea in his pocket, going to market, had the advantage of the same premium over the man with the paper guinea, so he could go to a specie shop, and with his gold guinea buy a paper guinea and the premium; then he had a paper guinea of the same value as the other man, and the premium besides. Bank of England notes were exactly equivalent to guineas. From all these facts, it appeared that the Irish Bank note wanted 10 to 12 per cent. of the value of specie. It was contended that this was due to the rising in value of specie, and not to the depreciation of notes; but if specie had risen so much in value, or which was the same thing, if commodities had fallen so low as 10 or 12 per cent., such a state of things could not have continued for any length of time, because such a degree of cheapness would have attracted specie from Great Britain, where it had not risen. Moreover, Bank notes had been issued at par with specie, at its current value, whatever it was, and they ought to have risen *pari passu* with it, so as to be exchangeable with it, and therefore whatever they wanted of this exchangeable property must be considered as a falling off from their original value, or a depreciation to that extent. And therefore he was clearly of opinion that the Irish paper currency was depreciated.

24. After shewing that the balance of payments,

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had been for a long series of years favorable to Ireland, but that the exchange had never ceased to be greatly depressed, he was asked—*

"Do you also mean on the whole of your evidence to give it as your decided opinion, that there is and has been a depreciation in the paper of currency of Ireland, and that the high rates of exchange, which have prevailed and still prevail, have arisen from that depreciation?"

"I do; the high exchange in Dublin which has now continued for some years MUST, NO DOUBT, HAVE ARISEN, LIKE ALL OTHER PERMANENTLY HIGH EXCHANGES WHICH HAVE EVER EXISTED, FROM THE DEPRECIATED STATE OF THE CURRENCY WITH WHICH BILLS OF EXCHANGE ARE PURCHASED, and the same remedy might perhaps be resorted to with success in the present case, which has never failed to be effectual on all former occasions, namely, a removal of the depreciation."

These are the ideas of the men of 1696; we shall find a long dreary period elapse before their truth was again generally recognised in this country. The amazing absurdity of supposing that the exchange could have fallen to 118, on account of the balance of payments alone, can be easily shewn. We cannot suppose that the cost of transmitting the specie from Dublin to London could have been more than £2 at most. Consequently as £108 6s. 8d. was the par of exchange, if the rate of exchange fell below £110 6s. 8d. it would have been cheaper to send the specie itself. Surely, the Irish would never have been so foolish as to pay £118 in Dublin to purchase a debt in London of £100, when they could place the cash itself on the spot for £110 6s. 8d.

25. The directors of the Bank of Ireland had admitted that before the Restriction Act, they were obliged to regulate their issues of paper by the price of guineas, and

* Report p. 122.

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the exchange with London. Whenever they had an unusual demand for guineas, and the exchange was adverse, they had been obliged to diminish their issues to prevent the continuance of the demand for guineas. As soon, however, as they were released from paying in cash, they no longer thought themselves bound to follow the same rules, and we have seen how prodigiously they had extended their issues. They admitted, however, that it was a possible case, that their issues might be too great, and a new theory was now advanced which we shall be called on to discuss at some length in a future chapter, but we notice it now because this appears to have been the first occasion it was propounded by mercantile men. Mr. Irving being asked if, in his opinion, Irish Bank notes were depreciated, said that he did not think so, although guineas were selling at a premium.

"Explain your reasons."

"I am of opinion that a bank managed with prudence would only issue notes in proportion to the demand which may be made for those notes, in exchange for good and convertible securities, such as mercantile bills of exchange payable at specific periods, of undoubted respectability, founded upon real mercantile transactions, upon government securities such as exchequer bills, in the purchase of Spanish dollars, or other bullion, and the circumstances of the bank notes of Ireland being demanded for such good and convertible securities, I am of opinion, is a proof that they are not too large in amount, and that their value is not depreciated."

We shall see afterwards that this theory was adopted by the directors of the Bank of England. It is one quite opposed to that by which the Irish directors acknowledged themselves obliged to follow whilst they were liable to pay their notes in gold. Hence, if it was correct, it inevitably followed that the issues of a bank should be governed on totally different principles under a convertible and an inconvertible paper currency.

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26. After accumulating a considerable body of evidence upon the subject, and examining witnesses of all sorts of various opinions and various professions, the committee reported that the real exchange was in favour of Ireland, and that the difference between the real and nominal exchange arose from the depreciation of the Irish paper. They pointed out the absurdity of supposing that the value of gold had risen, and not that the paper was depreciated.* They said that the difference between the rate of exchange could never vary more than the cost of transmitting specie from one to the other, and that any excess above that could only arise from other causes. They then noticed the enormous increase of the paper currency that had taken place, since the only check against over-issue was removed, namely, convertibility into gold at the will of the holder,—the great quantity of base and counterfeit coin fabricated and forced into circulation,—and shewed that under an unfavourable state of the exchange the paper currency had always been diminished. "If prudence had not dictated such a course, necessity would have compelled a diminution of issues, by diminishing the stock of specie which could only be replaced at a loss proportionate to the existing rise of exchange, and your committee observe that in fact as well as in theory, the result of such practice always was and must be the redress of the unfavourable exchange."† Since the Restriction Act, however, the Directors had acted exactly upon the opposite principle, when the exchange was unfavourable, they had greatly increased their issues. Excessive issues of paper produce a proportionate rise in the rates of the exchange, for these are obviously influenced by the value of the medium in which the payments are made, and the *quantity* of that medium necessary to effect a given pay-

* Report, p. 4. † Ibid, p. 7.

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ment must be increased as the value of the medium diminishes, no matter whether the payments be made in a degraded and adulterated coin, or in a depreciated paper.* If paper by depreciation comes to represent a less quantity of money than it professes to do, it must make the exchange which it is to pay appear unfavourable, in the same manner as coin in which it were to be paid would have done, if by degradation it should cease to contain the same portion of gold which it used to do; and the removal of the degradation in the one case, and of the depreciation in the other, would have the same effect in bringing the exchange to par, or whatever might be its real state.

27. After recommending several minor remedies, the committee said, "But all the benefits proposed by this mode of remedies would be of little avail, and of very limited duration, if it did not promise at the same time to cure the depreciation of paper in Ireland by diminishing its over-issue. * * * And your committee do, in express terms, declare their clear opinion, that it is incumbent on the directors of the Bank of Ireland and their indispensable duty, to limit their paper at all times of an unfavourable exchange during the continuance of the restriction, exactly on the same principle, as they would and must have done, in case the restriction did not exist, and that all the evils of a high and fluctuating exchange must be imputable to them if they fail to do so."

28. They then noticed the miserable state of the silver coinage, or rather the base metal, and notes and I. O. U.'s substituted in its place, which they said was clearly to be traced to the unfavourable exchange. As long as the exchange continued in that unfavourable state,

* Report, p. 1.

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all the genuine silver coin transferred itself to England, and the place of the genuine silver coin was supplied by these small silver notes in the country districts, and in Dublin, where they were not issuable, by an extremely base silver coinage, which was privately fabricated in great quantities, all of which evils could only be cured by the restoration of the exchanges to their true state, and the issue of a genuine silver coinage.

29. The committee contented themselves with declaring in the most emphatic terms, that the Bank of Ireland ought to regulate its issues by the state of the exchanges, but it did not discuss the new theory propounded, that the paper currency should be regulated by the mercantile bills of exchange offered for discount. No one who has paid any attention to the principles of the subject, and carefully considered the facts produced before the committee, can fail to acquiesce in their judgment, and we cannot fail to remark that none of the professional witnesses, *i.e.*, the directors of the Bank of Ireland, or the other bankers examined, had attained the smallest glimpse of the principles which governed their own business, and by which they should have directed their policy. Its true principles were clearly seen and announced solely by the extra-professional witnesses, and laid down by the statesmen who formed the committee. We may suppose that fear of giving offence to their customers, and so diminishing their business and profits, may have somewhat dimmed their perception.

30. As it was evident that as long as the different currencies between the countries continued, there must be an exchange from the want of a common medium of payment, the committee strongly recommended that the moneys of circulation and account should be assimilated, and that Bank of Ireland notes should be payable in

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Bank of England paper, and that the Bank of Ireland should establish a fund at their credit in London for that purpose, and that all bills should be payable at a fixed date, which measures had been found to reduce the Scotch exchanges to par, and maintain them so ever since the year 1763, through all the political and commercial convulsions of the period.

31. The presentation of this Report dees not seem to have excited any discussion in the Houses till many years afterwards. In 1809, Mr. Parnell moved that the currencies of England and Ireland should be assimilated in accordance with the recommendation of the committee, which was rejected without a division.* The Report does not seem to have been printed for public circulation till 1826; but it was probably communicated to the Bank, and produced some effect upon their policy. A fact was stated by Mr. Foster in the House† that in the months of May, June, and July 1804, the directors diminished their issues from three to two millions and a half, and the exchange rose; in August they increased them again, and the exchange fell. The Chancellor of the Exchequer (Addington) declared that it was a perversion of terms to infer that the depreciation of paper had any real effect on the exchange. The excessive issue of paper might produce a depreciation, but each country had a different circulating medium, and the depreciation of either could only have a nominal effect on the course of exchange. Mr. Addington wholly overlooked the fact that payments were made in Bank of Ireland paper, and the course of exchange referred to that paper. If payments had been made in silver coin of full weight, then it would have

* Parl. Debs. Vol. XIV. p. 75. † Ibid. Vol. IV. p. 69.

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been true that the exchange would not have been disturbed by the depreciation of the paper. But the course of exchange always relates to the medium in which the payment is actually made, and a depreciation of that medium necessarily causes an adverse state, in whatever state the other parts of the currency may be which are not the medium of payment. Of this we have seen a conspicuous instance in 1696, when the restoration of the silver coinage immediately rectified the exchange, although Bank paper continued to be depreciated long afterwards. Mr. Fox, with premature exultation, said* that he was glad to hear that the Chancellor of the Exchequer allowed that an excessive issue caused a depreciation, and that the House was never again to hear *the fantastical opinion that the paper was not depreciated, but the value of gold raised.* Had Mr. Fox been able to look forward only six years he would have found that this fantastical opinion not only re-appeared, but was maintained with more stubbornness and pertinacity than ever.

32. Such was the occasion of the first declaration by a parliamentary committee, of the principle that the issues of the Bank should be regulated by the foreign exchanges, a committee comprehending almost all the great names of the different parties of all opinions. As it was not then the custom to publish the lists of the divisions in committees, we are not able to say whether they were unanimous on the subject; but from the exceedingly strong and decisive language of the Report, we may fairly infer that the opinion of the committee was equally strong and decided, and that if a minority differed from the resolutions of the majority, it must have been a very small one.

* Parl. Debs. Vol. IV. p. 70.

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33. We have not much to detain us in the few following years. In 1804 the scarcity of the silver coinage was so severely felt, that the Bank issued 5s. dollars to supply the want, of which 1,419,481 were put into circulation. In 1806 the loan of three millions, which was the consideration for the renewal of the Charter in 1800, became due; but the Bank was persuaded to renew it at 3 per cent. per annum until six months after the ratification of peace. In 1807 a committee was appointed to enquire into the various branches of the public expenditure, and amongst others, into the payments made into the Bank of England. In the second report are some interesting details respecting the connection between the Bank and the government.*

34. At this period political circumstances occurred, which led to a great derangement of the British currency, and of which we may be allowed to give a short summary. "For ten years (before 1805) Prussia had flattered herself that by keeping aloof she would avoid the storm, that she would succeed in turning the desperate strife between France and Austria to her own benefit, by enlarging her territory and augmenting her consideration in the North of Germany, and, hitherto, success had in a surprising manner attended her steps. At once all her prospect vanished, and it became apparent, even to her own ministers, that this vacillating policy was ultimately to be as dangerous as it had already been discreditable."† The state of universal contempt into which Prussia had fallen, precisely similar to that which she enjoys at the present day from an analogous course of conduct, was at last too strong even for her, and just then the Emperor Alexander arrived at Berlin, and by his influence a secret

* Parl. Debs. Vol. IX. App. p. 83.

† Alison's Hist. of Europe, Ch. XLI. § 83.

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treaty was signed on the 3rd November by the two states, to curb the ascendancy of France in Europe. Prussia bound herself in the event of Napoleon not agreeing to certain conditions to be offered him, to declare war against him on the 15th December, and the King bound himself by the most solemn oaths to adhere to his engagements. After considerable delay, the Prussian minister started for the head quarters of the French Emperor on the 28th. Napoleon, who was then manœuvring in preparation for the Battle of Austerlitz, but who was perfectly aware of the nature of Haugwitz's mission, put off receiving him for a short time, and sent him to Vienna. On the 2nd December, Napoleon destroyed the Russian and Austrian armies in the great battle of Austerlitz, before the eyes of their respective sovereigns, and the Prussian minister immediately rushed off to congratulate Napoleon on his successes! and to propose to him a treaty of alliance by which Prussia was to seize all the continental dominions which belonged to her ally the King of England. This treaty was signed with Napoleon, on the 15th December, the very day on which Prussia had agreed to declare war against him. In the following March, Prussia, under the compulsion of Napoleon, issued a decree prohibiting British merchandize from entering any port in the Prussian dominions, thus cutting off a principal scource of the supply of corn to Great Britain.

35. Swift and sure was the retribution that fell upon Prussia for her matchless meanness and perfidy in 1805. Napoleon was perfectly informed of the object of Haugwitz's mission to him. "You have come," said he, "to present your master's compliments on a victory, but fortune has changed the address of the letter;"* and

* Bignon. Vol. V. p. 14.

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though he was too anxious to forward a measure which would consign her to public infamy, and embroil her with Great Britain, he did not, nevertheless, for one instant from that time, pause in his determination to destroy her at the first opportunity. "From the moment the treaty was signed, Napoleon did more than hate Prussia, he conceived for that power the most profound contempt."* He proceeded to treat her with the most unmeasured arrogance, and after a series of aggravated insults, that perfidious power was astonished to discover that Napoleon was secretly treating with Great Britain for the restitution of Hanover to its lawful sovereign. Negociations for peace had been going on for some considerable time between France, England, and Russia, which led to nothing. The popular ferment in Prussia had been increasing for a long time from her disgraceful position becoming more notorious and galling every day, and the government, with a rashness, violence, and imprudence only to be surpassed by its perfidy, sent a haughty summons to Napoleon to evacuate Germany. This insane insult reached Paris on the 1st October, when Napoleon was already far on his way to Berlin, and on the 14th, Prussia met her well deserved doom at the twin battles of Jena and Auerstadt. Napoleon visited the tomb of Frederick the Great, on the anniversary of the day on which, on the same spot, the king of Prussia had bound himself by solemn oath to the Emperor Alexander.

36. Soon after Napoleon arrived at Berlin, he issued the Berlin decree against British commerce, on the 21st November. This decree was soon afterwards met by a retaliatory order in council, on the part of Great Britain, and during the course of 1807, a series of decrees

* Bignon. Vol. V. p. 232.

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were issued both by England and France, each endeavouring to outdo the other in violence, ferocity, absurdity, and illegality, the result of which was, however, to exclude the British flag from every part of Europe, except Sweden. This state of hostility, the avowed object of which was the destruction of British commerce, led to a short supply, and an apprehended scarcity of every article of European production required as raw materials for our manufactures. The natural consequence was a boundless spirit of speculation in these articles, and under the influence of this speculation, the prices of all the products of Russia, and the East of Europe, rose to double and triple the ordinary figure. At the same period Spain was occupied by the French, and similar speculations tripled and quadrupled the price of Spanish wool.* France, too, was supreme in Italy; and the produce of that country, chiefly consisting in silk, rose in a similar proportion. Nor had our own conduct been less ruinous in other respects. The vindictive nature of the Orders in Council had proved so destructive to the rights of neutrals, that a rupture with America was imminent, which produced an equally speculative rise in the prices of American products, such as tobacco and cotton.†

37. Speculation in these productions was favored by an expected narrowing of the sources of supply; circumstances of an opposite nature came to excite still further perturbations in the usual course of trade. The entry of the French into Spain and Portugal had paralysed their power over their colonies, and the Great South American continent became from this time virtually independent. It had been hitherto rigidly closed

* Tooke's Hist. of Prices, Vol. I. p. 272.

† Ibid, p. 275.

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against British commerce. On the 13th November, 1807, Napoleon published a decree in the *Moniteur*, deposing the House of Braganza from the throne of Portugal, and Junot took possession of Lisbon, and the Royal Family immediately embarked for the Brazils. These events opened up the whole of the South American trade to the British, and the speculation of the merchants swelled in a proportion commensurate to the vastness of the markets that were thrown open to them. A complete phrenzy of speculation seized upon the nation. It spread from commerce to joint stock companies. The infatuation of 1720 was reproduced. Joint Stock Companies of all descriptions, for canals, bridges, insurances, breweries, and multitudes of others, started up like mushrooms. At the same time, the Bank of England fanned the flame of speculation to an extent far beyond the bounds of ordinary rashness. It is stated by Sir Francis Baring, in his evidence before the bullion committee, that since the restriction he knew of many instances of clerks not worth £100, who had started as merchants, and had been allowed to have discount accounts of from £5,000 to £10,000,* which demand, he said, was caused by the Bank, and not by the regular demands of trade, and which could not exist if the restriction were removed. The paper discounted by the Bank, which had been £2,946,500 in 1795, rose to £15,475,700 in 1809, and to £20,070,600 in 1810.

38. Along with this extravagant speculation, partly caused by it, and partly fanning it, a multitude of country banks started up in all directions, and inundated the country with their notes, exactly as had happened before 1793. In the year, 1797, they had been reduced

* Bullion Report, p. 132.

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to 270; in 1808, they had increased to 600; and in 1810, when the Bullion Committee were appointed, they amounted to 721, and the quantity of paper they had put into circulation was supposed to amount to £30,000,000.* At the same time, the Bank of England had increased its issues to £21,000,000, a quantity declared by some of the most eminent witnesses, far to exceed the legitimate wants of the country.

39. Concurrently with these extravagant speculations and issues of notes, the price of gold bullion rose rapidly and the foreign exchanges fell with equal rapidity, exactly the same symptoms as had been manifested in Ireland in 1804. The following figures taken at intervals are sufficient to shew the rapid rise of the price of bullion and the fall in the foreign exchange:

	Price of Standard Gold.			Price of Silver.		Exchange with Hamburgh.	
	£	s.	d.	s.	d.	s.	d.
Jan. 1805	4	0	0	5	4	35	6
Oct. 1805	4	0	0	5	5	33	9
July 1808	no quotation			5	3	34	9
Feb. 1809	4	10	0	5	3	31	0
May 1809	4	11	0	5	5	29	6
Jan. 1810	no quotation			5	7	28	6

40. Under these circumstances, Mr. Horner, on the 1st February 1810, moved for several accounts relating to currency and exchanges. Mr. Baring stated that guineas then brought 26s. or 27s.† The Bullion Committee were then appointed.

41. Before proceeding to analyse this famous

* Evidence of Mr. Richardson. Bullion Report, p. 149.

† Parl. Debs. Vol. XV. p. 276.

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Report and the evidence produced before it, we may observe that what has so frequently happened when two or more persons or occurrences have contributed to any result, if one of these persons or occurrences has been much more prominent than the rest, the others come, in course of time, to be forgotten, and the whole merit or blame is attributed to the one which has attracted most public attention. So it has been in this case. The Bullion Report of 1810 has, from various circumstances, attracted so much public attention to itself, as to have thrown completely into the shade the Report on the Irish Currency of 1804; and that Report seems to have been so soon forgotten, that the directors of the Bank of England in 1810 had little or no knowledge of it. The circumstances, however, of the derangement of the Irish currency, upon which the committee of 1804 sat, were precisely identical with those of the English currency in 1810, which caused the appointment of the English committee. The same sets of opinions were delivered and adhered to stoutly by the professional witnesses in both cases, and the Report of the committee in each case was precisely identical; in each case they condemned the doctrines and policy of the Bank directors in the most emphatic manner. The Report of the committee of 1810 is written in a more methodical and scientific form, and is superior as a literary performance, but the principles adopted and enforced in it are absolutely identical with those of the committee of 1804.

42. It may be interesting to compare the composition of the two committees, who at different times came to similar conclusions as to the principles that should govern the Bank in its issues during the restriction of cash payments. The committee of 1810 consisted of Mr. Horner, Mr. Spencer Perceval, Mr. Tierney, Earl

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Temple, Mr. Brand, Mr. Parnell, Mr. Magens, Mr. Johnstone, Mr. Giddy, Mr. Dickinson, Mr. Thornton, Mr. Sheridan, Mr. Baring, Mr. Manning, Mr. Sharpe, Mr. Grenfell, Mr. Foster, Mr. Thompson, Mr. Irving, Mr. Huskisson, Mr. Abercrombie. On comparing this list with that of the committee of 1804, it will be seen that there were only two members, Mr. Sheridan and Mr. Foster, who were on both committees.

43. The witnesses examined before both committees consisted of the same varieties. 1. Bank directors. 2. Private bankers. 3. General merchants. 4. Independent witnesses. On reading over the evidence by these respective sets of witnesses we find that the opinions given by the English Bank directors and merchants were precisely simlar to those of the Irish Bank directors. The directors of both Banks vehemently repudiated the idea that the Bank paper was depreciated; they equally maintained that it was the price of specie that had *risen*; they both admitted that while they were liable to pay their notes in specie they were obliged to regulate their issues by the foreign exchanges and the price of bullion; they both admitted that since the restriction they had paid no regard to their former rules, and they denied the necessity of so doing. They both denied that the issues of their notes had any effect upon the exchanges, or were in any way the cause of the high adverse exchange, and they both denied that a limitation of their issues would have the slightest effect in reducing the exchange to par. They both maintained that there could be no over-issue of their notes so long as they were confined to the discount of paper of undoubted solidity founded upon real transactions.

44. Nothing can be more remarkable than the perfect identity in sentiment in every point of opinion and

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policy, between these two sets of directors, but we must remark a circumstance that will detract considerably from the weight of their opinion, namely, that they were all *interested* witnesses. In the first place, since the restriction upon paying in specie, and so being relieved of fulfilling their obligations, they had extended their discounts enormously, and their profits upon their extended issues had been proportionate, the dividends to the proprietors had greatly increased; and secondly, they were in the position of semi-defendants, their policy was certainly impugned; the Committee was a species of court of inquiry into their conduct, and it certainly was not likely that they would admit that the principles they were acting upon could be wrong, when they were so very lucrative to the proprietors of the Bank. The same objection of interested testimony equally applies to that of the merchants, for they were interested in obtaining as large an amount of accommodation from the Bank as possible, and a restriction of its issues would have curtailed their operations, speculative or otherwise; consequently their interests were better served by the doctrines and policy of the Bank directors. Both committees however examined witnesses of an independent position, who had no interest one way or the other, and in each case they totally disagreed from the opinions of the Bank directors, and condemned their policy. And in both cases the committee having examined all those witnesses of different shades and opposite opinions, presented reports strongly condemning the opinions and practice of the directors of each bank, and called upon them to alter their policy, the report in the Irish case in language of great severity, that in the English case equally strong in fact, though milder in expression.

45. As this division of opinion on these financial

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questions seems to be as permanent and deep seated as the divisions on political questions, it may be of advantage to state shortly and precisely the points upon which the respective parties were at issue. The facts of course were easily ascertained and agreed upon. They were as follows:

1. That the mint price of gold bullion or the legal standard of the coin was £3 17s. 10½d. per oz.
2. That the market price of gold bullion was then £4 10s. per oz.
3. That the foreign exchanges had fallen to an enormous extent; that with Hamburgh 9 per cent., that with Paris 14 per cent.
4. That the increase of bank notes had been very great during the last few years, and was rapidly augmenting.
5. That specie had disappeared from circulation.

46. Upon this acknowledged state of facts the opposite issues maintained by the two parties, were as follows:

The one party maintained—

I. (*a*) That the Bank notes were depreciated.
   (*b*) That the difference between the market price and the mint price of gold bullion, was the measure of the depreciation.

II. (*a*) That the extreme limit to which the foreign exchanges could by the nature of things fall, in any case, was defined and easily ascertained, and consisted of the expense of freight, insurance, and some other minute causes.
   (*b*) That in the then state of the exchanges there

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was a very large excess of depression over and above that limit, which was not attributable to any of these causes.

(*c*) That this residual depression of the foreign exchanges, and the rise of the market price above the mint price, was caused by the excessive issues of bank notes in circulation.

III. That a diminution in the quantity of bank notes would increase the value of the domestic currency—would cause the foreign exchanges to rise to par—and the market price of gold to fall to the mint price.

IV. That the directors of the Bank of England ought to follow the same rules in the extent of their issues during the restriction of cash payments, as they were obliged to do before, viz., by regulating them by the foreign exchanges. When the exchanges were favourable, and bullion flowing in, they might enlarge them; when the exchanges were adverse they must contract them.

47. In opposition to these principles, the other party maintained.—

I. (*a*) That it was not the Bank notes that were depreciated, but the price of specie that had risen.

(*b*) That there was no difference ~~between~~ in the price of bullion, whether paid in notes or specie.

II. That the depression of the foreign exchanges was in no way whatever attributable to the depreciation of the currency, but was entirely caused by the adverse balance of payments to

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be made by Great Britain, the remittances to the army, the continental measures of Napoleon, and other political measures.

III. That no diminution or increase of the issues by the Bank would have any effect whatever upon the foreign exchanges, either in raising or depressing them, or on the market price of bullion.

IV. That since the restriction, there was no necessity for observing the same rules in issuing their notes by discounts, as before, *i. e.*, by observing the course of the foreign exchanges, but that the public demand was the sole criterion, and so long as they adhered to these rules, there could be no over-issue.

48. With respect to the first point at issue between the two parties, after the very full explanation of the principles involved in it, given in a previous chapter, we need say very little about it here, as according to what has already been said, it is quite clear that it certainly was a very fantastic opinion to suppose that gold could rise in comparison to a "promise to pay gold." There was one circumstance, however, different in the cases of England and Ireland. In the latter country, the Bank notes were openly at a discount, there were two prices in every transaction, a money price and a paper price, and there were specie shops where guineas were openly sold for Bank notes, and several shillings over. In England this was not the case, partly because Bank of England notes were received at their full nominal value in payment of taxes, but chiefly because it was an indictable offence to sell guineas for more than 21s. Shortly before the bullion committee was appointed, a man named De Yonge was tried and convicted for the crime of selling

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guineas for more than 21s. This law only applied to heavy guineas. Light guineas, below 5 dwts. 8 gr. might be sold, and were usually sold for a Bank note and 6s. or 7s. Considering, therefore, that by law, it was a crime to sell guineas of full weight at their market price, it is clear that the value of guineas was not an open question —they were forcibly depreciated by law, and, consequently, this is no argument for the equality in value between the paper and the coin. If it had not been a criminal offence, there would have been two prices for every thing, a money price and a paper price.

Mr. Merle was asked,*

"What is the difference between the mint price and the market price of gold, per cent?"

"About fifteen or sixteen."

"When you buy gold, you pay for it in Bank paper?"

"Yes."

"The payment being made in Bank paper, the price is £4 10s. per ounce?"

"What I have sold for the home trade I had only £4 8s. for."

"If you were to pay in guineas, should you get the gold at a cheaper rate?"

"I could not pay in guineas, I cannot get them."

"Supposing you had guineas to give, could not you buy that gold at a cheaper rate than £4 10s. an ounce?"

"No, I should not offer a less price, certainly; if I was to buy any quantity of gold and pay for it in guineas, I should offer the same price as in Bank paper."

"When you speak of the mint price being £3 17s. 10½d. an ounce, do you calculate that in gold coin, or in Bank paper?"

"We make no difference, and I do not believe there has been any difference in paying in specie or Bank paper."

* Bullion Report, p. 52.

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"Is not the reason why an ounce of gold is worth £3 17s. 10½d. that as many guineas as weigh an ounce, amount to that sum?"

"Yes, if a gentleman came and brought me gold, I should pay him exactly the same, whether I paid him in gold coin, or in Bank notes."

"The mint price of gold is the price calculated in gold coin?"

"Yes."

"And the market price of gold at present is calculated by paper?"

"Yes, it is all paid in paper."

Thus, we see that nobody bought gold bullion at the market price in gold coin, but only in Bank paper.

49. Among the other witnesses who held the opinion that the Bank paper was undepreciated, we may cite that of Mr. Chambers, an eminent merchant, which condenses the whole subject into a single point.*

"Have you ever had occasion to consider the effects of an excessive or forced paper currency in any country, upon its foreign exchanges with other countries?"

"In a small degree, I have."

"What do you conceive the effect of such excess to be upon the foreign exchanges?"

"I apprehend the effect on the exchange would follow the depreciation of a forced currency."

"What do you say to an excessive currency, though not forced?"

"I do not conceive the thing possible."

"What do you mean by a forced paper currency?"

"A paper which I am obliged to take against my will, for more than its value; it is not forced so long as people take it willingly, which they will naturally do whilst undepreciated."

"May not the quantity of metallic currency be increased in

* Bullion Report, p. 104.

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proportion to payments which it has to effect, by an increased issue from the mines? and will not that have the effect of raising the money prices of all commodities?"

"I conceive an increase or abundance of silver or gold would have the same effect upon those precious metals, as a glut of any other commodity upon the market."

"And, in the same manner, may not that paper currency which continues to preserve its credit unimpeached, and which commercial people are perfectly willing to receive, be so augmented in quantity as to raise the local prices of commodities?"

"I do not conceive that that piece of paper, for which I am obliged to give a valuable article of merchandise, can be increased beyond the want of it; nobody will give a valuable article for a piece of paper that does not want it."

"Have you ever happened to pay any attention to the history of the paper currency of Scotland between 30 and 40 years ago, or to that of Ireland about the year 1804?"

"Some years ago I remember reading something about them, but the recollection is rather faint upon my mind."

"Do you call that paper in your sense of the word, forced, a forced paper currency, which either by law as it stands, or by the force of public opinion, is not convertible into specie at the option of the holder?"

"If it be convertible into other objects of my gratification without depreciation I do not consider it forced."

"At the mint price of standard gold in this country how much gold does a Bank of England note for £1 represent?"

"Five dwts. three grns."

"At the present market price of standard gold, of £4 12s. per ounce, how much gold do you get for a Bank of England note for £1?"

"Four dwts., 8 grns."

"Do you consider that a Bank of England note for £1, under these present circumstances, as exchangeable in gold for what it represents in that metal?"

"I do not conceive gold to be a fairer standard for Bank of England notes than indigo or broadcloth."

(Question repeated).

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"If it represents twenty shillings of that metal at the coinage price, it is not."

* * * * * * * *

"Will you state to the committee in your opinion, to what cause is referable the present unfavourable state of exchange, between England and the continent?"

"To the balance of payments being against this country."

"Can you give cases to illustrate the fact that you have assigned of the balance of payments being against this country?"

"Large British armies upon the continent; slow returns for exports; quick payments for imports; and very large stocks of imported goods now on hand in the country."

"Is there any other cause to which you attribute the present state of exchange?"

"I know of none other that can affect it, excepting that of a forced depreciated paper."

"Is it your opinion that the currency of England is depreciated?"

"Certainly not."

50. Upon this, Mr. Huskisson remarks,* "In these answers this leading doctrine is manfully and ingeniously asserted, and maintained; and all who stand up for the undepreciated value of Bank paper, however disguised their language, must ultimately come to the same issue." It was, in fact, as the same writer just before states, these persons had persuaded themselves and endeavoured to persuade others that Bank paper is the real and fixed measure of all commodities, and that gold is only one of the articles, of which in common with others, the value is to be ascertained by a reference to this invariable standard and universal equivalent, Bank paper.

* Life of Huskisson, Vol. I. p. 76.

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51. It is certainly amazing to think how persons of ordinary intelligence, could seriously make such answers as Mr. Chambers did, and that these views pervaded the whole of the mercantile evidence adduced, the reply to which is so obvious. A Bank note was a promise to pay a certain specified weight of *gold* of standard fineness, and it did not profess to represent any amount of indigo or broadcloth whatever. A £1 Bank note professed to represent 5 dwts., 3 grns. of standard gold and nothing else, and if it was only really equivalent to 4 dwts. 8 grns., those who maintained that it was not depreciated must also assert that 4 dwts. 8 grns. is the same thing as 5 dwts. 3 grns. There is no escape from this conclusion. Those who maintained that a £1 Bank note, which was a promise to pay 5 dwts. 3 grns. of gold was still a "pound" when it was only worth 4 dwts. 8 grns., ought also to have maintained that if the fifth part were to leak out of a pint bottle of wine, it was still "a pint of wine" because it was contained in a pint bottle. In each case, the "promise to pay," and the "pint bottle," were only the outward sign of what the contents ought to be, in either case, it was the quantity of the substance either of gold or wine they actually did contain, that was their true value.

52. Those who maintained that the Bank note was not depreciated, should also have maintained that the worn, clipt and degraded coin of William III. was not depreciated, when 6s. 3d. and 7s. only contained as much silver as 5s. 2d. ought to have done by law; so that 5s. 2d. was only equal in reality to 4s. 1d. of the legal standard currency.

53. It must be admitted, however, that there was one argument to show that there was no difference in transactions between specie and paper, for specie had

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totally disappeared from circulation, it had no existence. The Bank paper and tokens were the sole circulating medium of the country. When people found that they could get no more for their good golden guineas, than for the depreciated Bank paper, they hoarded them; they either retained them locked up, or melted them down for exportation, the temptation to perjury being exactly 12s. per ounce. The explanation of these phenomena is very simple. When Bank notes were declared inconvertible, they took rank as a new substantive currency (being merely representative before), exactly like silver. Now the relative value of gold and silver purely depended upon their relative quantities, and when their relative values were fixed by law, if the legal value did not correspond to the market value, we have seen over and over again that the metal which was *undervalued* was driven out of circulation. So also, when heavy and light coins circulated together, the heavy coins were driven out of circulation because the heavy coins were undervalued, and nobody would give 6 ounces of silver for what they might buy with 5 ounces. It was exactly the same with Bank notes. They could only preserve their relative value with gold, by preserving certain relative proportions in their quantity; as soon as this quantity was exceeded, their relative value fell, and as their relative value to guineas was fixed by law, a change in their market value was followed by exactly the same consequences as a difference between the market and legal value of gold and silver. The guineas which were undervalued, were driven out of circulation, as always has been done under similar circumstances, and as always will be done to the end of time. Nobody would give 5 dwts. 8 grns. of gold for what they could get for 4 dwts. 8 grns. Thus this iniquitous and ignorant law to force down the value of guineas, brought its own punish-

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ment with it, it destroyed their existence as a circulating medium; but then it became literally true that there was no difference between specie and paper, the power of making an invidious distinction between notes and gold was effectually cured,—*solitudinem faciunt, pacem appellant;* when the inhabitants were massacred the Russians proclaimed "*l'ordre regne à Varsovie.*"

54. With respect to the second issue joined between these parties, the principal places with which London had established exchanges were Amsterdam, Hamburgh and Paris, in all of which the currency was metallic. The committee examined witnesses, who proved that the whole expenses of freight, insurance, war risk, and every other charge, varied from about 4 to 5½ per cent., but beyond these there was a depression of 12 to 14 per cent., totally unaccountable for by any of these causes. If it were true that this difference arose from a demand for gold on the continent, it is quite evident, that gold should equally have risen in the continental markets; but those who alleged this cause should have been prepared with a proof of their assertions, which, however, they were totally unable to produce. On the contrary, it was proved that there was no alteration in the mint price of gold in foreign places, and that the market prices had experienced no rise at all in proportion to the rise in England.

55. While the English merchants so strenuously maintained that the rate of exchange was entirely due to the balance of payments being against England, and that the Bank paper was not depreciated, it may be as well to compare the opinions of a foreign merchant who looked at the same circumstances from a different point of view.* After stating the difficulty of ascertaining the exact par

* Bullion Report. p. 73.

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of exchange between London and Hamburgh, from the fact of one currency being silver and the other gold, he considered that the rate of exchange might be considered as 15 per cent. against England.

"Has not a large quantity of circulating specie a powerful tendency to steady the course of exchange?"

"Yes, certainly, when its importation and exportation is not prohibited, and as forming the only basis that regulated the par of exchange."

"Is not then any country whose chief circulation is in paper, likely to experience great fluctuations in the course of exchange with other nations?"

"When that paper is not convertible into cash, it only represents, in my opinion, an ideal and not a real value, subject to public opinion, aud consequently liable to the very great fluctuations which public opinions are subject to."

* "Is there not an agio (or premium) at Hamburgh, for banco above the current money?"

"Not according to my ideas; but, on the contrary, it is *the different current coins that bear an inferior value* to the Bank money, and which vary daily, every thing there being valued according to Bank money or a certain weight of fine silver."

† "What is the extent to which you conceive that the exchange is capable of falling in any country in Europe at the present time, supposing it to be computed in coin of a definite value, or in something convertible into a definite quantity of gold or silver bullion?"

"The charge of transporting it, together with an adequate profit in proportion to the risk the transmitting such specie is liable to, would be the extent of the fluctuation."

The witness stated that the whole of these causes put together might amount to 5½ or 6 per cent.

"Do you not then conceive that such a fall of our exchange as has exceeded the sum necessary to compensate for the expense of transporting gold and silver, in the last 15 months, must be referred

* Bullion Report, p. 75. † Ibid. p. 76.

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to the circumstance of the existence of a paper currency not convertible into specie?"

"Yes, certainly."

"Do you conceive, then, that out of the 15 or 20 per cent. which the English exchange has fallen in the last 15 months, the large portion of from 10 to 12 or 13 per cent. may be referable to the circumstance of our paper currency not being convertible to cash?"

"I am clearly of that opinion."

"Do you then consider our paper as depreciated 10 to 13 per cent. in consequence of its non-convertibility into cash?"

"As I value everything by bullion, I conceive the paper currency of this country to be depreciated to the full extent of the 15 or 20 per cent., or rather the difference in this country between the price of bullion and the rate by which the coin is issued from the mint."

"Do you conceive the balance of trade with the continent of Europe to be now for or against this country?"

"I conceive it to be considerably in favor of this country, though not to the extent as generally stated in figures; those figures representing, in my mind, only about 80 per cent. of their nominal value."

56. With respect to the third issue between the parties, nothing can be clearer than that a diminution in the quantity of paper in circulation must have enhanced its value relatively to all other commodities, including gold, and as the market-price of gold was determined solely with reference to the price paid for it in Bank paper, and not in guineas, it is evident that a reduction of the quantity of paper must have reduced the price of gold when expressed in paper, and brought the real value of the note nearer to its nominal value; and by thus raising the value of the whole currency, it must necessarily have raised the foreign exchanges to par, if the diminution was carried to a sufficient extent, and so would have brought gold back again into circulation.

57. The fourth issue between these parties con-

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tains a perfectly new theory of the paper currency, which had previously been announced by the directors of the Bank of Ireland. As this may be considered as one of the most famous theories of currency, we think it will be advantageous to defer the discussion of it till the chapter in which we shall consider several theories of the subject together. It is sufficient to say here that the Bullion Report especially condemned it.

58. The above may be considered as the chief points agitated before the committee, which are material to our subject. We may now give a short abstract of the arguments and recommendations of the Report. It begins by stating the existing difference between the market and the mint-price of gold. The former being about £4 10s., being 15½ per cent. above the latter. The same difference prevailed in the price of silver. The foreign exchanges had also begun to be extremely unfavorable to England in 1808, and had become more so during 1809, at that time the exchange with Hamburgh was 9 per cent. below par, with Amsterdam 7 per cent. below par, and with Paris 14 per cent. below par. So extraordinary a rise in the market price of gold above the mint price, coupled with the extraordinary depression of the foreign exchanges, had early convinced the committee that the cause of them was to be found in the state of our domestic currency. But upon both these points they had been anxious to collect the opinions of merchants.

59. Most of the witnesses attributed the high price of gold entirely to an alleged scarcity, arising from the unusual continental demand for it, but it was proved that at Hamburgh during the preceding year, when the price rose so high in this country, the fluctuations had never exceeded 3 or 4 per cent. At Hamburgh the price of gold was expressed in *silver* like any other commodity,

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and the Committee considered the change in the market and mint price of gold at Hamburgh and Amsterdam in the last few years, to shew that a change had taken place in the relative value of the two metals all over the world. Silver having fallen in its relative value to gold all over the world, gold has appeared to rise in price in those markets where silver is the legal measure, and silver to fall in those markets where gold is the legal measure.

60. With respect to the demand on the continent causing the rise in the market price, the same effect ought to have been observed in former wars if that had been the case. But it had not been so during the seven years' war, and in the American war there had been no want of bullion in the country. The two most remarkable times when the market price had exceeded the mint price, were in King William's reign, when the silver coin was very much below the standard, and in the beginning of George III's reign, when the gold coin was in a very degraded state. In both cases the reformation of the coinage had effectually lowered the market to the mint price, and since 1773, when the gold coinage was reformed, till 1797, the market price had never materially risen above the mint price, even in 1796 and 1797, when there was such a scarcity of gold on account of the demand of country bankers to meet the run upon them. The committee, moreover, totally disbelieved the fact of the alleged scarcity of gold, as witnesses had proved that there was no difficulty at all in getting any quantity of it, by those who chose to pay the price of it, and that the changes which had lately taken place in commercial matters, had caused immense quantities both of gold and silver to be imported into this country. There was, therefore, not only no evidence of the alleged scarcity, but, on the contrary, the evidence proved the opposite fact.

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61. But even had there been a scarcity, the idea that the market price could rise above the mint price arose from a misconception. That gold was in this country the measure of all exchangeable value both by custom and law. That commodities were said to be dear or cheap according as they exchanged for more or less gold; *but that a given quantity of gold could never exchange for a greater or less quantity of gold of the same standard fineness*, except by a very small quantity, which was the measure of the convenience of having it in coin rather than in bullion or the reverse. An ounce of standard gold, then, could never fetch more in the market than £3 17s. 10½d., *unless* £3 17*s.* 10½*d. in our currency contained less than an ounce of gold.* That if gold became exceeding scarce it would become more valuable compared to other commodities, whose prices would consequently *fall*, while the money price of gold must necessarily remain unaltered, but that was not the case at present, the prices of all commodities had *risen*, and the price of gold had also risen, which facts could only be accounted for by the state of the currency.

62. The report then explains the circumstances which might cause a difference between the market and the mint price of gold, the deterioration of the coinage, the delay in having bullion coined, the obstruction to exportation,—these two latter causes amounted to about 5½ per cent. None of these causes existed at Hamburgh with respect to silver. The currency was a regular fixed weight of silver of standard fineness, and no obstruction was offered to the utmost freedom of exportation. And in England the variation had never exceeded 5½ per cent., while the Bank paid in gold, and the coin was of full weight.

63. Since the suspension of cash payments, how-

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ever, gold in a manner had ceased to be the measure of value, nor was there any other standard of prices than that circulating medium, issued partly by the Bank of England, and secondly by the country banks, the variations in value of which were only proportionate to their quantity. That it was highly desirable that the value of this circulating medium should be brought to a conformity with its real and legal standard, gold bullion.

64. If the gold coin of the country were to become much lessened in weight, or debased in the standard, the market price would evidently rise in like proportion above the mint price. For the mint price is the sum in coin, which is equivalent in value to a given quantity, say an ounce, of the metal in bullion, and if the intrinsic value of that sum in coin be lessened, it is equivalent to a less quantity of bullion than before. The same effects would follow, if a paper currency no longer convertible into gold, were issued in excess. For that excess not being exportable to other countries, or convertible into specie, remains in the channel of circulation, and is gradually absorbed by the increasing prices of all commodities, which will rise exactly in the same manner as they rose when the great increase of the precious metals took place. Consequently, the prices of all commodities, bullion included, must rise, and if this fall in the value of the currency of one country takes place without a corresponding fall in the value of neighbouring countries, their currencies will no longer retain the same relative value, and, consequently, the exchanges will fall to the disadvantage of that particular country. Such must be the effects in any country, of an excessive quantity of currency which is not exportable, and which is not convertible into coin which is exportable.

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65. The difference of exchange between any two places, arising from the state of trade, and payments between, could never permanently exceed the expense of conveying and insuring the precious metals from one to the other. The position was so plainly true, and agreed upon by all practical authorities, both commercial and political, as to be perfectly indisputable. That in time of war the risk would, of course, be increased; but taking into consideration all these circumstances, the entire expenses of sending bullion to Holland did not exceed 7 per cent., and to Paris a little more, these causes might, therefore, depress the exchange to that extent, but no lower. But the depression had lately amounted to nearly 20 per cent., consequently, after exhausting all these causes of depression, there remained a large residual depression to be accounted for; and that RESIDUAL DEPRESSION COULD ONLY BE ACCOUNTED FOR, AND WAS OWING TO THE DEPRECIATED STATE OF THE DOMESTIC CURRENCY.

66. The great general result then, of all these foregoing principles and facts, was that in the then artificial state of the currency, it was a point of the greatest importance to watch the foreign exchanges and the market price of gold bullion,* and the committee were anxious to know if the directors of the Bank of England regarded the matter in the same light, and whether the great disturbance in the price of gold and the foreign exchanges, during the last year, had made them suspect that the currency was excessive. The directors, however, totally repudiated those notions and ideas; they maintained that their issues and the foreign exchanges and price of gold had no connection whatever

* Bullion Report, § III. p. 15.

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to each other, and that in making their issues they never paid the slightest regard to either one or the other, and that no modification of their paper currency would influence either the price of gold or the foreign exchanges.

67. The report then proceeds to disprove the opinions of the Bank by historical references. They quoted the cases of the derangement of the Scotch currency in 1763 of the Irish currency in 1804, both of which are fully detailed in this work, they then quoted the case of the Bank of England in 1696-7, which has been described with much minuteness in the preceding chapter, where the extract from this report has already been quoted and commented upon. But though we have been obliged to point out the grievous chronological errors with which it abounds, it is remarkable that the correction of these errors does not in any way weaken or contradict the arguments of the bullion report, on the contrary the true state of the case materially strengthens and adds force to all the principles of the report.

68. In former times, a high price of bullion, and an adverse state of the exchanges, had compelled the directors of the Bank to reduce their issues, to counteract the drain of guineas, and preserve their own safety. They, perhaps, did not understand the principles of the case better than the directors of the then time, but they felt the practical inconvenience, and were obliged instinctively to obey its impulse, which circumstance imposed a practical limit upon their issues. But since the restriction, they did not feel the inconvenience, and that check had been removed; nevertheless, it was the clear and decided opinion of the committee, that the Bank ought to continue to regulate their issues by the market price of bullion, and the foreign exchanges in the same manner as

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they had been obliged to do before the suspension, and that the high price of gold bullion, and the depression of the foreign exchanges beyond the limits before described, were to be ascribed to the neglect of the due limitation of the paper currency.

69. Since the checks above described had been removed, the committee were anxious to know, upon what principles the directors had regulated their issues. The directors and some of the merchants showed a great anxiety to state a doctrine, of whose truth they were thoroughly convinced, that there could be no possible excess in the issue of Bank of England paper so long as the advances in which it is issued consist of the discount of mercantile bills of undoubted solidity, arising out of real commercial transactions, and payable at short and fixed periods. These were the principles which then governed the bank, and what they said indicated the only true limit that need be imposed on their issues. Nevertheless the report says such a doctrine is wholly erroneous in principle, and pregnant with dangerous consequences. The Report then proceeds to show the fallacy of this theory of paper currency, which, as we have already observed, we shall reserve for future consideration along with several other theories upon the subject.

70. The limitation of the rate of interest by law to 5 per cent. produced injurious effects, by fanning a spirit of speculation, and making more extensive demands for discounts. Consequently the directors themselves had been obliged frequently to limit their advances, and did not act up to their own principles, which they considered sound and safe, and consequently they had no distinct or certain rule to guide them.

71. The suspension of cash payments had thrown into the hands of the directors of the Bank the important

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charge of supplying the circulating medium of the country at their sole discretion. That the most complete knowledge of the state of trade, combined with the most profound science in all the principles of money and currency, could not enable any set of men always to adjust the circulating medium properly to the trade of the country. That the precious metals were the only natural adjusters of these things, which could not be replaced by any human wisdom or skill. That the directors of the Bank had exercised the new and extraordinary discretionary powers entrusted to them, with great integrity and regard to the public interests, according to their conception of it, and with more forbearance than might have been expected; but unfortunately, the principles upon which they acted, were fundamentally erroneous, and they had been in a great measure the cause of the continuance of the great disturbance in the monetary system.

72. The Report then gave some statistics regarding the quantity of notes in circulation at different periods since the restriction. However, they said that the actual numerical amount of notes in circulation at any given time was no criterion whatever, as to whether it was excessive or not. Different states of trade and different extents of commercial operations would require different amounts of notes. When public credit was good, a smaller amount would be required than when public alarm was felt, and people had recourse to hoarding. Moreover, the different methods of doing business, and economising the use of the currency much influenced the amount which might be proper and necessary at any period. The improved methods of business, the policy of the Bank, the increased issues of country bankers, had all tended to diminish the quantity of Bank notes necessary for commerce. Consequently the numerical amount alone was no criterion

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whatever; a surer test must be applied, and that sure criterion was only to be found in the state of the exchanges and the price of gold bullion.

73. The experience of the crisis of 1793 had proved that an enlarged accommodation was the true remedy for the failure of confidence in country districts, such as the system of paper credit was occasionally exposed to. That it was true the Bank had refused the enlarged accommodation in 1793. But the issue of exchequer bills was exactly the same in principle, and the good effects that followed that issue proved the truth of the principle that if the Bank had had the courage to extend its accommodation in 1797, instead of contracting it as they did, the catastrophe which followed, might probably have been avoided. Some persons thought so at that time, and many of the directors, since the experience of 1797, were now quite satisfied that the course adopted by the Bank in that year increased the public distress, in which opinion the committee fully concurred.

74. A very important distinction, however, was to be observed between a demand for gold for domestic purposes, sometimes great and sudden, and caused by a temporary failure of confidence, and a drain arising from the unfavourable state of the foreign exchanges, *that a judicious increase of accommodation was the proper remedy for the former phenomenon, but a diminution of its issues the correct course to adopt in the latter.*

75. That the present issues were excessive, but that it was essential to the commercial interests of the country, and to the general fulfilment of mercantile engagements contracted during the too free issue of paper, that the reduction should be made gradually and with great caution and discretion. They then give some details of the great increase of country Bank notes, and the facilities of

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abuse and excessive issues afforded by the then state of the law respecting them.

76. Upon all those facts and reasonings, then, the general conclusions arrived at were: That at that time there was an excessive paper currency, of which the most unequivocal symptom was the very high price of gold bullion, and next to that the very depressed state of the foreign exchanges. That the excess was to be attributed to the removal of all control on the issues of the Bank of England by the suspension of cash payments. It was greatly to be regretted, therefore, that this Act, which at best was only intended to be temporary, had been continued as a permanent war measure. The enormous evils and injury to all classes of the community by the great derangement of the measure of value, were too notorious to be necessary to describe, and there was every prospect of their continuing and increasing, that the integrity and honour of Parliament imperatively required that an end should be put to this state of things at the earliest practicable moment.

77. That the continuance of this state of matters held out a temptation to Parliament, to have recourse to a depreciation of the gold coin, by an alteration of the standard, which had been done by many governments under similar circumstances, and which might be the easiest remedy to the evil. But it would be a great breach of public faith and of the primary duty of government, to prefer the reduction of the coin down to the paper, rather than the restoration of the paper to the legal standard of the coin.

78. Some proposals had been made of remedying the evil, by a compulsory limitation of the amount of the Bank's advances or discounts, or of its profits or dividends. All these, however, were futile, because the necessary proportions never could be fixed, and even if it were so, might

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very much aggravate the inconveniences of a temporary pressure, and even if their efficacy could be made to appear, they would be most hurtful and improper interferences with the rights of commercial property.

79. The only true and proper remedy for all these evils was, therefore, A RESUMPTION OF CASH PAYMENTS. That, however, was an operation of the greatest delicacy, and it must be left entirely to the discretion and prudence of the Bank to carry it into effect. Parliament should merely fix the time, and leave it to them to carry out the details. Under all the circumstances, a period of two years seemed to be not longer than necessary, and at the same time sufficient to enable them to prepare for it. The committee finally concluded by recommending an Act to be passed to compel the resumption of cash payments in two years from that time.

80. Such, we trust, is a fair analysis of this famous Report, which has acquired a celebrity probably exceeding any report that has ever been presented to parliament. It contains the eternal and immutable principles which must regulate every paper currency which makes any attempt to conform to the value of the gold it represents, and if any legislation on paper currency be considered necessary, it must endeavour to enforce the practical application of the principles of this Report, and just in so far as it deviates from or contravenes them, so it will be found to thwart and contravene the eternal principles of political economy. All legislation then on the currency should have as its object merely to provide the best machinery for ensuring the practical application of these principles. The general principles laid down in this Report are as complete a matter of demonstration as any in Euclid; the method of treating the subject is as scientific as any of the great discoveries in natural philo-

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sophy, which have excited the admiration of the world, nor could it fail to carry conviction to any one of ordinary intelligence who was capable of understanding the force of the arguments. No sooner, however, was it published than it was assailed by a whole multitude of pamphleteers whose obscure memory it is not worth while to revive now. The interests affected by the Report were too deep and extensive for it not to be attacked by every species of ridicule and acrimonious controversy. We must now advert to its reception and treatment in the House of Commons.

81. The Report was presented by Mr. Horner on the 9th June 1810, but was not formally taken into consideration till the 6th May 1811. It was the joint composition of Mr. Horner, Mr. Huskisson, and Mr. Henry Thornton. The debate was opened by Mr. Horner, who addressed the House for upwards of three hours in a speech which obtained the admiration of all who heard it. It is unnecessary to go over that speech here, because its line of argument has already been anticipated. He ended by moving a series of sixteen resolutions. The first seven related to the legal standard of value in this country, with reference to which all contracts were made in this country. 8. That the promissory notes of the Bank were stipulations to pay on demand the number of pounds sterling specified upon them. 9. That when Parliament passed the Restriction Act it had no intention that the value of these notes should be altered. 10. That, nevertheless, they had for a considerable time been below their legal value, (11.) which was caused by the excessive issues of them, both by the bank of England and the country banks. 12. 13. That the extraordinary depression of the foreign exchanges was in great part owing to the depreciation of the currency of this

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country, relatively to that of other countries. 14. That during the suspension, the directors of the Bank ought to regulate their issues by the price of bullion and the foreign exchanges. 15. That the only method of preserving the paper currency at its proper value was to make it payable on demand in the legal coin of the realm. 16. That cash payments ought to be resumed at the period of two years from that time.

82. Mr. Rose replied to Mr. Horner:—"He said that he could shew that there was no depreciation of Bank paper from excessive issue, and that the report was more full of errors and mis-statements than any that had ever been made to parliament. He was convinced that the issue of Bank notes could have no effect on the price of gold, or on the foreign exchanges. He denied that the increased price of commodities was in any way to be attributed to the increase of Bank paper. The report of the committee was directly in opposition to the opinions of all the witnesses examined except two. All "experience" was against the "reasonings" of the Report. He produced a table showing the number of Bank notes in circulation at different periods, and the market price of bullion and the exchange with Hamburgh, to shew that there was no connection whatever between them. However, the committee had themselves most pointedly remarked that the numerical amount of notes alone was no test of their depreciation. The enormous payments which England made to the continent during the last two years were quite sufficient to account for the fall in the exchange. That the rise in the prices of all commodities on the continent, had been equally great in countries where there was no paper currency as here. He went into arguments at great length to disprove the idea that

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the issues of Bank notes had any effect on the price of gold or the exchanges.

83. Mr. Henry Thornton stated that the great question at issue between the bullion committee and the Bank was, whether its issues should be regulated by the price of gold and the foreign exchanges, and if its excessive issues produced any effect upon them. Mr. Thornton argued at great length in support of the principles of the report, and cited the case of the Bank of France in 1805, as a remarkable confirmation of the truth of its principles. The French government having occasion for a loan, applied to the merchants for it, such a transaction being contrary to the rules of the Bank. The merchants proceeded to fabricate among themselves bills to the requisite amount, which they discounted at the Bank, which thus ultimately became the real lender. There was in consequence an enormous increase of the Bank paper, a great demand for specie. The Bank had to bring back specie from the provinces at a great loss—at length it stopped payment. Bank notes fell to a discount of 10 or 12 per cent., and the foreign exchanges fell 10 per cent. But the Bank reduced its paper, and in three months resumed payment without difficulty, and the foreign exchanges were rectified. Mr. Thornton also quoted several other cases of other countries where the same phenomena had occurred. He then passed on to the question of the standard of the currency, which he said was becoming endangered by this continued depreciation. Indeed, the argument in favour of a deterioration of the coin grew stronger every day. The very argument of justice, after a certain time, passes over to the side of deterioration. If we have only been two or three years using a depre-

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ciated paper, justice is on the side of the former standard; if ten or twenty years have passed since paper fell, it may be deemed unfair to restore the ancient standard. He concluded by strongly urging parliament to return to the ancient standard before it was too late.

84. Mr. Vansittart, who moved the counter-resolutions to Mr. Horner, controverted, at great length, the principles of the report. He asserted that the only mode in which a metallic currency could have a favorable effect on the exchanges was by *exportation*, and that if exportation was prohited by law, no effect could be produced. The amazing absurdity of this assertion has been sufficiently proved in the course of this work, to need repetition here. These assertions, however, were sober good sense compared to the lengths of wild extravagance into which he subsequently plunged. He said that the first seven resolutions argued on the supposition that the standard was something visible and tangible. "I affirm that a standard in the sense used by these gentlemen, namely, a fixed and invariable *weight* of the precious metals as a measure of value never existed in this country!!"* He ridiculed the idea of the resolution that the weight at which any such money is authorized to pass current is fixed!! These extraordinary ideas he attempted to support by reference to the degraded state the coin had been in at different periods, but which were yet legal tender, and which he contended, proved that the coin was not any definite weight of bullion. It was upon this point, he said, that the question of depreciation depended. "Now, I do not consider myself bound either to admit or deny that Bank notes have lost a value which they never pos-

* Parl. Debs. Vol. XIV. p. 925.

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sessed, and which the legal coin of the country never possessed, namely, a value estimated by a fixed weight of gold or silver bullion. They never had any other than current value founded on the public confidence in the Bank, and this value, I firmly believe, and have distinctly stated in my third proposition, that they possess as much as ever." When the whole of the rest of his speech was a mere repetition and development of such crazy ideas, it is mere waste of time to give any more details of it. There is one more specimen, however, which we cannot refrain from extracting. He says,* "it appears then, that a diminution of the value of currency may have the effect of improving the exchange, but cannot by possibility depress it!!" Which means, that the more debased and worthless the currency of a country is, the more favorable should be the foreign exchanges, or the higher should foreigners estimate it. So that while the French assignats were daily falling lower and lower at home, the more should foreigners have given for them; so that while the French themselves gave one livre in coin, for 1200 in assignats, the English and other foreigners ought to have given their full nominal value in coin, and even more than that according to Mr. Vansittart. He then made several triumphant observations about there being no difference in transactions between Bank notes and coin. He admitted that he had been a member of the Irish Committee of 1804, and had concurred in the opinion that Irish Bank notes were depreciated, but he said that the two cases were not parallel; for it appeared not only that the current coin was openly sold at a premium, but that an established difference of price existed between payments in coin and in Irish paper, while Bank of England paper

* Parl. Debs. Vol. XIV. p. 938.

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passed as equivalent to guineas. This depreciation however he denied had proceeded from excessive issues, but from the political circumstances of the period.

85. Such were the leading "arguments" against the conclusions of the committee, which though somewhat varied in expression, were constantly repeated. After the exposition given in our chapter on the History of our Currency, of the various states of our coins at different periods, it would be waste of time to attempt seriously to disprove the outrageous folly of the proposition, that the coins of Great Britain never were intended to contain any fixed or certain quantity of gold or silver bullion in them. If this had been true, what was the need of having any gold or silver in them at all; if it was not to regulate their value?

86. With respect to the assertion that there was no difference in common payments between guineas and Bank notes, and that guineas were not openly selling at a premium as in Ireland, the answer was simple and decisive, if it were so, it was merely through the terrors of the penal law. At the very time of this debate three men were lying under a conviction of the crime of selling guineas for more than 21s. They had been convicted under an old statute of Edward VI., which did not extend to Ireland, so that the reason why guineas were sold publicly at a premium in Ireland was, that there was no law against it, in England it was a criminal offence, and in consequence of this guineas had disappeared from circulation. But Mr. Vansittart threw out another challenge, he acknowledged that it was legal for tradesmen to make a distinction in prices, according as they were paid in money or in Bank notes, and he denied that such a distinction existed. On this point, however, he was met

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with a distinct denial by Mr. Huskisson, who said,* "If paper were sustained at all in public estimation, it must be by a support growing out of terror, by an estimation proceeding at that moment from a consideration of a pending judgment. If this were once settled public estimation would soon show what it really was. In every part of the country there were already two prices, he had undoubted proof of the fact. He had in his pocket a letter from a person intimately acquainted with such matters, which said that two prices were prevalent in the country, and that the usual premium for guineas was half-a-crown."

87. Mr. Sharp, a member of the Bullion Committee, adduced further facts to prove that the Bank notes were depreciated; he said it had been usual to send over specie to Guernsey to pay the troops there. *Each guinea had lately been paid to the soldiers at* 23*s.*; one regiment, however, had refused to receive them at that rate. In another case he knew of a person who had received a legacy of 1,000 guineas which was paid in specie, he went to invest it in the funds, and on asking the price of the 3 per cents. was told 64½. But on asking what the price would be if paid in real money, he was told, after some consideration, he might have it at 60, which was the price actually paid. So that while the government were arguing at Westminster that guineas were of the same value as Bank notes, they were at the same time dishonest enough to pay them away to the soldiers at 23s.

88. Sir Francis Burdett† stated, that in Jersey, Bank of England notes were at a discount of 3 per cent. as compared to the notes of their own little bank; that it was perfectly notorious that two prices were common

* Parl. Debs. Vol. XIX. p. 977. † Ibid, Vol. XIX. p. 1153.

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throughout the country. He knew it from his own experience; he had been offered wine at far different prices, according as he should pay for it either in Bank notes or in specie.

89. We have now given so much space to this interesting discussion, that we can scarcely afford room to notice any of the other speeches upon the subject. When we read the arguments and evidence, which seem to be so perfectly satisfactory, according to all the usual principles that command assent, we feel some curiosity to know what was the opposing theory set up against them, and it was simply this, that the pound sterling was nothing tangible at all! It was an imaginary vision! a vague idea! an airy nothing! which never had any existence in nature at all, and that accordingly, everything, money and bullion included, might vary in endless changes round this ideal centre. It had even less substantiality than a whiff of smoke! It was "a sense of value" communicated in some mysterious way from one person to another. Mr. Canning pursued the author of this insensate folly with unsparing ridicule in his speech. He also ably pointed out the consequence of not allowing guineas to circulate at their market value, which had been followed by their total disappearance, whereas, dollars, which were beginning to disappear, when they were bound down to the value of the depreciated Bank paper, were immediately restored to circulation, when they were allowed to pass current at their intrinsic value. However, though he fully agreed in all the principles and reasonings of the Bullion Report, he did not think it expedient that the Bank should be called upon to resume cash payments in so short a period as two years.

90. After a debate of four nights the committee divided on the first of Mr. Horner's resolutions, and it

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was negatived by a majority of 151 to 75. The fourteen next were negatived without a division, and the last was rejected by a majority of 180 to 45. Among the names of the majority was that of ROBERT PEEL.

91. The ministry, having defeated the Bullion Committee by so great a majority, would have done well to let the matter rest. As to the matter of fact agitated between the parties, the depreciation or the non-depreciation of the Bank notes, it would be useless to waste one word more, and in arguing against so palpable a fact, the ministerial party shewed little discretion. They might easily have saved their credit by admitting the fact, but arguing that it was not expedient for the public service that so momentous a change should be made during the war. Not content, however, with procuring the total rejection of Mr. Horner's resolutions, Mr. Vansittart, in the plentitude of his power and party strength, and in the mere wantonness of tyranny, determined to drag the House through the lowest depths of ridicule and absurdity. He moved a series of resolutions which are too long to be inserted here, to the effect that there was no legal weight of bullion in the coins, beyond what the caprice of each sovereign might dictate; that the Bank notes were merely promises to pay in these coins, and they always had been, and at that moment were held equivalent in public estimation to the legal coin of the realm, and generally accepted as such in all pecuniary transactions to which such coin is lawfully applicable, and that the price of bullion and the state of the foreign exchanges were in no way owing to excessive issues of Bank paper.

92. In introducing his resolutions Mr. Vansittart made a speech of enormous length, repeating his former views, that the state of the domestic currency had no

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effect upon the foreign exchanges, and, with a flight of unheard-of audacity, he in defiance of the recorded opinion of Parliament and the unanimous testimony of all contemporary writers, made the extraordinary assertion that in 1696 and 1774 "the fall of the exchange, was the cause, and not the consequence of the depreciation of the currency!" Mr. Canning in vain attempted to persuade the ministers to rest satisfied with the defeat of the Bullion Committee, and for the sake of the reputation of the House, not to make them pass a vote which no one outside the House could speak of without laughter. His amendment was rejected by a majority of 82 to 42; and, after some other minor divisions, Mr. Vansittart's resolutions were carried.

93. We have observed that guineas were not sold openly at a premium, because it was generally believed to be a criminal offence to do so, and three men were tried and convicted for so doing. To draw any argument of the equality of the value of the note and coin under such circumstances, was nothing but a contemptible piece of sophistry. But nothing could be more whimsical or absurd than the presumed state of the law on the subject. It was held to be penal to part with a Bank note for less than 20s. in bullion, but it was quite legitimate for a tradesman to make two prices for his goods. In his speech against Mr. Horner's resolutions, Mr. Vansittart had taunted his opponents with the circumstance that this was not done. It is incredible how any one could have made an argument of such an absurdity, when it was so easy to outwit the law. If any one wished to avoid the legal offence of parting with a guinea for more than 20s. what more easy than a collusive sale? Sell a loaf to any man for a £1 note and 5s., and buy it again from him at a guinea, and the interchange

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between the guinea and the £1 5s. was effected in the most legal manner. But such subtleties were at once put an end to by the Court of Common Pleas unanimously quashing the conviction of De Yonge, and declaring that it was no crime at all to sell guineas at a premium.

94. After the house had indulged in this wild freak, —the very saturnalia of unreason,—and given so great an encouragement to the Bank to pusue its wild career, it became evident to any one who understood the subject, that the value of every man's property depended upon the will of the Bank directors. This was fraught with the most alarming consequences to every one who had a fixed annuity, as while the price of every article of prime necessity kept pace with the depreciation of the currency, any one, like a landlord, having only a fixed rent to receive, was paid in a depreciated paper, while his tenants received the increased nominal prices of their commodities. As matters were continually getting worse, gold having risen to £4 16s. per ounce in March, Lord King issued a circular to several of his tenants, reminding them that their contract was to pay a certain quantity of the legal coin of the country, and that the present paper currency was considerably depreciated. He said that in future, he should require his rents to be paid in the legal gold coin of the realm, but that as his object was merely to secure the payment of the real intrinsic value of the sum stipulated by agreement, he should be willing to receive the amount in Portugal gold coin of an equal weight with that of the stipulated number of guineas, or by an amount of bank notes sufficient to purchase the weight of standard gold requisite to discharge the rent.

95. That such a demand was legal no one pretended to deny; but when this practical sarcasm was past upon

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the resolution of the House of Commons it drove that party wild, and the most unmeasured abuse was heaped upon him for *incivism*. Not only was this in every way legal, but nothing could have been more equitable. His tenants were receiving the increased market prices for their crops, and only paid him in the same number of depreciated notes. It is quite clear that if his tenants got an increase in the price of their corn owing to the depreciation, he ought to have received a proportionate increase in his rents. Lord Stanhope brought in a bill, which after being considerably modified, was ultimately passed, making it a misdemeanour to make any difference in payments between guineas and Bank notes. Lord Stanhope in bringing in the bill mentioned several instances which he had been informed of in which 27s. were demanded for a guinea. Lord Holland also said that a pound note and seven shillings were currently given for guineas. Admirable commentary upon the resolutions carried so triumphantly in the House of Commons only two months before, and then standing on their journals, that in public estimation, guineas and bank notes were equal!

96. Lord Grenville opposed the Bill with great earnestness, and his opinion is particularly valuable because he was one of the Cabinet who originally proposed the Restriction Act. He said he had never seen the ministers of the country in so disgraceful a position as they were that night. He turned the famous resolutions of the House of Commons into great ridicule, and said that it had been left for Robespierre, the Jacobins, and the present ministry to raise a cry of *incivism* against the private actions of individuals. He said that it was one of the most painful days in his and Mr. Pitt's political life, when they felt compelled to come to parliament to propose the restriction. "By what consideration we were afterwards

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induced to extend it for successive short periods, it is unnecessary to explain, suffice it is to say, that they are considerations which I shall ever deeply regret had any influence upon my mind. I do assure my noble friend (Lord King) that I have long since fully concurrred in the arguments which he has urged against the original policy of that restriction."* He said that the present course if persevered in, must end in the same manner as the Mississippi and South Sea Schemes, in total ruin. "My Lords, it has often been my lot to point out the inevitable results of the issue of assignats in France. How little did I then imagine that in the description I then gave, I was but anticipating what in the course of twenty years, would be the faithful picture of my own country!"

97. Although we have given so much space to this debate, we cannot refrain from giving a few sentences from Lord Stanhope's reply, as they concentrate in the shortest space the whole of the ministerial arguments and views on the subject.

"Earl Stanhope, in explanation, said that there was no such thing in this country as a measure of value founded on a quantity of bullion of standard fineness. The legal coin was the money with the stamp upon it. The stamp was what made it the lawful coin, not to be melted nor transported, and not the weight and fineness. He did not know what mathematicians he had to deal with, but if Bank notes and gold bore a fixed proportionable ratio to the pound sterling by law, they were equal to one another, and to prove this he need go no further than the first book of Euclid, where it was laid down as an axiom that things equal to the same are equal to one another."

98. We are accustomed to smile at the famous decree of the Inquisition, which resolved that the motion

* Parl. Debs. Vol XX. p. 824.

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of the earth was false, and sympathize with Galileo, who when retiring from their rebuke, said "*e pur si muove*," "It moves for all that." But the famous resolution that guineas were equal in public estimation to Bank notes, when guineas were currently sold for a £1 note and seven shillings, and the dictum of Lord Stanhope that they *were* equal because the law *declared* them to be so, infinitely transcends it in absurdity; and when we feel inclined to be merry at the expense of the worthy fathers of the Inquisition, we should think of Mr. Vansittart's resolution, and be grave.

99. The bill was warmly contested in every stage of its progress through the House of Lords, but finally passed the third reading by a majority of 43 to 16. In the House of Commons the debates were equally warm and protracted, but it was finally passed by a majority of 95 to 20. The Act was originally limited to the 24th March, 1812, but it was subsequently continued during the continuance of the Bank Restriction Act.

100. We shall reserve some remarks regarding the effects of the great overtrading of 1809 and 1810, till the chapter in which we shall consider the theory of the Bank respecting the issues of its notes upon mercantile security.

101. Among other arguments alleged against the opening of the Bank, was the injustice of compelling it to buy gold at the increased market price. Now that we are enabled to take a more dispassionate view of the subject than those whose interests were so much involved in it at the time of the debate, we can see that there was no hardship in such a requirement. Every creditor who was paid in these depreciated notes, was defrauded of 20 per cent. of his debt, and, considering the enormous gains made by the Bank at the expense of the holders of its

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notes, justice evidently demanded that the Bank should purchase whatever quantity of gold was sufficient to discharge its obligations, cost what it would. The injury to the holders of its notes, severe as it was, was only temporary, but a very much more serious injury was done to the nation by adding an enormous amount to the national debt, which was contracted in this depreciated currency.

102. The harvest of 1811 was extremely deficient, and that was the period, too, when the power of Napoleon was at its height, and the continental sources of supply were cut off. Towards the middle of 1811, the price of corn began to rise very rapidly, and continued doing so till August, 1812, when it reached its greatest height during the war. The average of wheat for England and Wales was then 155s. and some Danzig wheat brought 180s., and in one or two instances oats were sold at 84s.* The advocates of the rival theories attributed this extraordinary rise to different causes; one party almost entirely to the depreciation of the paper currency, the other party almost entirely to the great scarcity. Mr. Tooke is the most distinguished advocate of the latter view, and in support of it, brings most forcible arguments from the corresponding rise which took place in France during the same period, where the currency was almost purely metallic. Admitting to the full extent the powerful arguments adduced by Mr. Tooke, which derive additional force from his being a cotemporary of the circumstances he describes, we can yet hardly think he can be correct in so entirely excluding the effect of the depreciation of the paper currency as he does. We have abundance of evidence that before the gold coin and Bank note bill, there were very generally two prices in the

* Tooke's Hist. of Prices, Vol. I. p. 323.

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country, a gold price and a paper price; after that bill that was abolished, and there was nothing but a paper price, and gold totally disappeared from circulation; but can we doubt that if any price had been paid in gold, there would have been a very great difference between the two, fully as great as before that Act? If then it be granted that such would have been the case if payments had been made in gold, it seems to follow that when prices were paid solely in paper, they must be considered to have been enhanced by just so much as the difference would have been, if any payments had been made in gold. There does not appear to be the least reason to suppose that the scarcity was comparatively greater in 1812 than it was in 1800, in fact, the evidence seems to be entirely the other way, that the scarcity and distress was much greater in the former period, yet in 1812, the average rose to 155s. in the former it was only 133s. Whence this difference? We think the evidence points clearly to the depreciation of the paper in which payments were reckoned. Now, in May and June, 1812, the price of gold bullion was about £4 18s. per ounce, at which the real value of the note was 15s. 11d. Now, are we to suppose that the enhancement of prices, when paid in paper, which was quite notorious before Lord Stanhope's bill, was actually annihilated by that Act?

103. The principles of the bullion report having been decisively rejected by parliament, and pronouced to be fallacious, by the resolutions which declared 21 to be equal to 27, the Bank took no measures to bring their notes to a nearer conformity to their nominal value, and the market or paper price continued to rise till in November, 1813, it stood at £5 10s., the greatest height it ever reached. The long continuance of high prices partly caused by a continued series of deficient harvests,

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and partly by the depreciation of the paper in which they were paid, gave rise to the belief that they would continue permanent. Immense speculations began in land-jobbing, vast tracts of waste and fen land were reclaimed. It was, at this time, that the immense agricultural improvements in Lincolnshire were effected. Rents in most cases rose to treble what they were in 1792; all the new agricultural engagements entered into at this period were formed on the basis of these extravagant prices; landlords and tenants increased their expenditure in a like proportion, family settlements were made on a commensurate scale. As a natural consequence, country banks greatly multiplied. In 1811, they were 728, in 1813, they had risen to 940. and the amount of their issues was supposed, on the most moderate estimate, to be about £25,000,000. After the disasters of the French in the Russian campaign of 1812, and the battle of Leipsic, the ports of Russia and Northern Germany were thrown open to British commerce. This naturally gave rise to enormous speculative exports and overtrading.

104. The harvest of 1813 was prodigiously abundant, so that the price of corn, which in August, 1812, had been 155s. and had receded gradually from that point till August 1813, fell with great rapidity, and in July 1814, was only 68s. The exporting speculations were at their height in the spring of 1814, and the prices of all such commodities rose to a very unusual height, in many cases to double and triple of what they had been before.* Every branch of industry was by the preceding causes affected, and the natural and inevitable consequences soon followed. A violent revulsion and general depression of prices of all sorts of property, which entailed such general

* Tooke's Hist. of Prices, Vol. I. p. 347.

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and universal losses and failures among the agricultural, commercial, manufacturing, mining, shipping, and building interests, as had never before been paralleled. As is always the case, the consequences of the wild speculations and engagements persons had entered into during the continuance of the fever continued to be felt for some years after. The disasters commenced in the autumn of 1814, continued with increasing severity during 1815, and reached their height in 1816-7. During these years 89 country bankers became bankrupts, and the reduction of the issues of country paper was such, that in 1816 its amount was little more than half what it had been in 1814.

105. This general discredit of country Bank paper resembling what had previously occurred in 1793 and 1797, caused a demand for additional issues from the Bank of England to help to maintain public credit, and though this caused an extension of the Bank paper by upwards of three millions, so great was the abstraction of country Bank paper from circulation, (to certainly three times the amount of the Bank of England issues,) that the value of the whole currency rapidly rose, so that while in May 1815, the market or paper price of gold was £5 6s. the exchange in Hamburgh 28.2., and that on Paris 19, in October 1816, the paper price of gold had rapidly fallen to £3 18s. 6d., the exchange with Hamburgh was 38, and that on Paris 26.10., and they remained with little variation at these prices till July 1817.*

106. Hence, at length, was manifested the most complete triumph of the principles of the Bullion Report. The great plethora of this worthless quantity of paper currency being removed, the value of the

* Commons Report on the Resumption of Cash Payments, 1819, p. 309.

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whole currency was raised almost to par, so near in fact, that the smallest care and attention would have brought it quite to par, and if means could have been taken to prevent the growth of the rank luxuriance of country Bank notes, cash payments would have been resumed at this period, with the utmost possible facility, and as a matter of course without exciting the least comment.

107. We have seen that on several previous occasions, the Bank had intimated to the government their perfect readiness and ability to resume payments in cash, but had always been prevented from doing so, for political reasons. In 1815, when peace was finally restored, they prepared in good faith to be ready to do so as soon as they should be required, and during that year and 1816, they accumulated so much treasure that in November 1816, they gave notice of their intention to pay all their notes dated previously to the 1st January 1812, and in April 1817, all their notes dated before 1st January 1816. When this was done, there was found to be scarcely any demand on them for gold. The nation had got so accustomed to a paper currency that they were most unwilling to receive gold for it. Mr. Stuckey, one of the largest bankers in the West of England, said,* that during this partial resumption of cash payments it cost him nearly £100 to remit the surplus coin which accumulated upon him to London, as he could not get rid of it in the country, his customers all preferring his notes; many persons who had hoarded guineas requested as a favour to have notes in exchange.

108. In March 1815, the restriction was prolonged to July 1816. The bill was brought in and passed before the news of Napoleon's quitting Elba had reached England.

* Commons' Report, p. 245.

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The Act was scarcely passed when the new war broke out which ended at Waterloo, and the expenses of the campaign made the ministers dread a monetary crisis and the restriction was subsequently prolonged till July 1818.

109. The partial resumption of cash payments was attended with perfect success; it caused no very great demand for gold, which continued to accumulate in the Bank till October, 1817, when it reached its maximum, being £11,914,000. In that month the Bank gave notice that it would pay off in cash all the notes dated before 1st January, 1817, or renew them at the option of the holders. In the course of 1817 a very large amount of foreign loans were contracted for; Prussia, Austria, and other continental states of lesser importance, were endeavouring to replace their depreciated paper by a metallic currency, and as money was abundant in England, a very large portion of these loans was taken up here. The effect of this began to manifest itself in April, 1817, when the exchanges with Hamburgh and Paris began to give way, and the market price of gold to rise. These phenomena increased gradually throughout 1818 until in January, 1819, the price of gold was £4 3s., the exchange on Hamburgh 33.8, and that on Paris 23.50. In July, 1817, the new gold coinage began to be issued from the Mint in large quantities. The consequence was a steady demand for gold set in upon the Bank, and in pursuance of its notices the sum of £6,756,000* was drawn out of it in gold. Just at this time the British Government reduced the rate of interest upon Exchequer bills. The much higher rate of interest offered by continental governments caused a great demand for gold for exportation, and in the beginning of 1818 a very decided drain set in.

* Report of Commons' Committee, p. 4.

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The Bank directors, however, determined to set all the principles of the Bullion Report ostentatiously at defiance. While this great drain was going on, they increased their advances to government from £20,000,000 to £28,000,000, and though they knew perfectly well that the demand of gold was for exportation, they took no measures whatever to reduce their issues for the purpose of checking the export.* At the same time the issues of country banks had increased by two-thirds since 1816.

110. This demand for gold became more intense during 1818 and 1819, and it became evident that the Bank would soon be exhausted if legislative interference did not take place. Accordingly on the 3rd February, 1819, both Houses appointed committees to enquire into the state of the Bank; and on the 5th April they reported that it was expedient to pass an Act immediately to restrain the Bank from paying cash in terms of its notices of 1816-7. An Act for that purpose was passed in two days' time. It was stated in the report of the Commons that in the first six months of 1818, 125 millions of francs had been coined at the French Mint, three-fourths of which had been derived from the gold coin of this country.† The Act‡ forbade the Bank to make any payments in gold whatever, either for fractional sums under £5, or any of their notes, during that session of Parliament. The

* The evidence of Mr. Jeremiah Harman, who continued to the last to be the most obstinate opponent of the doctrine that the issues of banks had any influence upon the foreign exchanges, affords a remarkable specimen of the extraordinary perversity of the Bank directors, which was a flagrant violation of the principle they confessed that they were obliged to follow before the restriction.

† Parl. Debs., Vol. XXXIX. p. 1400.

‡ Statute, 1819, c. 23.

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Act, therefore, totally closed the Bank for payments in cash.

111. As we have given the names of the committees of 1804 and 1810, we subjoin those of the committees of both Houses in 1819. Those in the Commons were Lord Castlereagh, Mr. Vansittart, Mr. Tierney, Mr. Canning, Mr. Wellesley Pole, Mr. Lamb, Mr. F. Robinson, Mr. Grenfell, Mr. Huskisson, Mr. Abercromby, Mr. Banks, Sir James Mackintosh, Mr. Peel, Sir John Nicholl, Mr. Littleton, Mr. Wilson, Mr. Stuart Wortley, Mr. Manning, Mr. Frankland Lewis, Mr. Ashhurst, Sir John Newport. The committee of the Lords were, the Earl of Harrowby, Duke of Wellington, Marquis of Lansdowne, Duke of Montrose, Earl of Liverpool, Earl of St. Germains, Earl Bathurst, Viscount Sidmouth, Earl of Aberdeen, Earl Granville, Lord King, Lord Grenville, Lord Redesdale, Earl of Lauderdale.

112. The chief points of interest in these reports regarding our present subject, are the opinions held by the witnesses respecting the great doctrines of the bullion report. The reports of neither House entered into the question of the theory of the currency; they were confined to recommending a certain course of action, but they examined a number of witnesses of the first eminence on the subject, and the result of their evidence is most extraordinary. It will be remembered that both in 1804 and 1810, the immense preponderance of commercial testimony was entirely adverse to the doctrine that the issues of paper currency had any effect upon the exchanges, or the price of bullion, or should be regulated by them. Nevertheless, the reports of both committees were entirely in the teeth of the mercantile evidence. The Bullion Report had now been before the country for nine years, and had caused more public discussion, both in

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parliament and in the press, than almost any subject whatever; and it is perfectly manifest that if its principles were erroneous, the commercial world would only have been further strengthened in their opposition to them. But what was the result now? The overwhelming mass of commercial evidence was entirely in their favor. The current of mercantile opinion was now just as strong on their side, as it had formerly been against them. What could be more triumphant than this? What could be more splendid testimony to their accuracy and soundness than the fact that they had converted the immense hostile majority of the commercial world?

113. In order to give some idea of this remarkable change in opinion, we must make some extracts from the evidence of the witnesses.

Mr. Dorrein, Governor of the Bank, said to the Lords' Committee, p. 31:—

"The advances of the Bank to Government upon Exchequer bills cannot be recalled at the pleasure of the Bank. But when money is lent at short periods, the Bank has a control over an excess of circulation, so as to check any improper speculation, and the means of sending bullion out of the country; and thus the Bank would have an influence over the foreign exchanges."

"Are you, then, of opinion that the exchanges are affected by the increase or diminution of the number of Bank notes in circulation?"

"A scarcity of circulating medium, of whatever it may consist, will oblige merchants to draw in their funds from foreign countries, and the superabundance of it will send the precious metals out of the country."

"The consequences of a scarcity of money would be to force an export of merchandize and manufactures, which would render the exchanges favourable to this country."

(*Before Commons' Committee, p.* 32.)

"A lessened circulation will have an effect to render the exchange favourable?"

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"Because it would force an export of merchandize, and an export of merchandize would bring money into the country."

"You have said that a contraction of the issues would lower all prices; Are the Committee not to understand that it must lower the prices of gold and silver, as well as of all other commodities?"

"I apprehend it would."

"Assuming the course of foreign exchanges to be 5 per cent. against this country, would not the effect of a diminution in the price of commodities, clearly, consequent on a diminution of issues, be to restore these exchanges to par?"

"The effect would be to force an export, and thereby raise the exchange."

114. Mr. Pole, Deputy-Governor of the Bank, said to the Lords' Committee, p. 35:—

"Whether the gold appearing to vanish, and going out of the country, does not proceed, in your judgment, from the unfavourable state of the exchanges?"

"Certainly."

"Is it your opinion that the exchanges are affected by the increase or diminution of the circulation of Bank of England notes?"

"Inasmuch as in that case the interest of money becomes so reduced in this country, as to hold out a beneficial prospect to persons in sending their capital from this country, to be invested in foreign securities, where a larger interest is made, consequently a debt is created from this country, payable to foreign countries."

(*To Commons' Committee, p.* 35.)

"Do you think a considerable reduction in the amount of your paper issues would affect the exchange?"

"I do."

"Is the answer you have given with respect to the effect upon the exchange of a reduction of the issues of the Bank, founded on observation and experience of particular cases, or the result of reasoning only?"

"Entirely upon reasoning; and my reasons are, that I con-

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ceive it would compel persons to withdraw their capital from the Continent to this country, on purpose to be able to support their own payments."

115. Mr. Haldimand, a director for ten years, but at that time out by rotation, said to the Lords' Committee, p. 40.

"Do you conceive that by a considerable reduction, on the part of the Bank, of the amount of its issues, the Bank would be enabled to resume with safety its payments in cash?"

"Most decidedly."

"Are we to understand, then, that in your judgment, the effect of such a reduction of its issues would be to render the exchange favourable to this country?"

"I certainly have always considered the amount of the issues of the Bank of England to act as a powerful lever upon all our foreign exchanges, so as to regulate their rise and fall."

"I conceive the exchange to be affected by the aggregate amount of the issues of the country bank and Bank of England paper."

"You have stated in a former day that you always considered the amount of issues of Bank notes to act as a powerful lever upon all foreign exchanges, so as to regulate their rise and fall; do you apply this to the price of gold?"

"I do."

"Do you ground this opinion upon reasoning, or upon what you have observed to take place?"

"I have grounded my opinion formerly upon reasoning, and my observation has since justified that opinion."

The witness produced a report of the governor of the Bank of France detailing a commercial crisis, and offering very strong and clear proof that an excess of paper circulation did affect both the exchanges and the price of bullion.

"It appearing from the accounts before us that the exchanges were very nearly par in the month of September last, and afterwards became more unfavourable than they had been since 1815, to

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what do you ascribe the great depression which has taken place since that time?"

"It would be difficult to point out the particular circumstances independent of the great principle of the depreciation of our paper currency, which affect our exchanges from time to time. I believe that the investments in foreign stocks did for a moment produce part of that fall, but I should attribute a very small part of it to that cause, and fall back upon my principle of an excess of currency. I most certainly believe, that had the Bank at that moment been paying its notes in specie, the depression alluded to would not have taken place. I ground my opinion on what I observe to be passing between other countries with regard to their exchange operations. France has at this minute nearly twenty millions sterling to pay to foreign powers; and although three payments have been already made, and the whole are to be completed within 27 months, no sensible effect has been produced upon its exchanges with other countries equally paying their notes in species, such as Holland and Hamburgh; nor does it appear that any inconvenient diminution has yet taken, or is contemplated to take place, in the metallic currency of that country. My opinion is, that a very small portion of this large payment will be made in specie or bullion. When a certain amount of the circulating medium has left France, the remainder will rise in value, and goods fall in price, when, consequently, it will become more advantageous to France to remit the remainder in its produce and manufactures from time to time."

Before Commons' Committee. p. 54.

"I look upon this forced reduction of the issues of the Bank of England as necessary in order to restore the rest of the paper in circulation to its ancient value in gold, and the exchanges to par. I have no hesitation in stating it to be my decided opinion, that the exchanges would be restored to par immediately the Bank resumed its payments. I think the depressed state of the exchanges arises entirely from the excessive issue of Bank of England notes. I have never heard of any country not paying its paper in specie on demand, where such paper has not been depreciated."

"You are understood to say, it is your opinion that the foreign

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exchanges and the price of gold are principally affected by the amount of issues of paper currency?"

"That is my opinion."

"What reason have you for believing that the circulation for the last half year, bore a greater proportion to the supply required for the purposes of the trade, than the circulation of the last half-year of 1817?"

"Because the paper was more depreciated at one time than at the other; or in other words, because the market price of gold was higher at the former, than at the latter period."

"Do you consider the price of gold to be the chief criterion by by which to judge of the excessive issue of Bank notes?"

"I do."

"I happened to be in Paris in October last, when the Bank of France reduced its issues upon discounts very considerably and suddenly. The issues of the Bank of France upon discounts at that period were 130 millions of francs, which was more than double the highest amount that was ever previously known. This step on the part of the directors of the Bank of France was occasioned by the following circumstances. The metallic currency was leaving the country in all directions, owing in all probability in some trifling degree to the over-issue of paper, partly to some large financial operations in Russia, and partly to the enormous payments that France had engaged to make to foreign powers, which amounted to nearly 20 millions sterling. The Paris bankers, therefore, anticipating a great demand for bills upon all foreign countries, were remitting specie to meet the drafts which they intended to negociate to the agents of all those foreign powers, with a small advantage upon their remittance. The sudden diminution, however, of the discounts of the Bank, caused the exchange to turn in favor of France, and immediately paralyzed all these operations; the metallic currency made a retrograde movement, and was restored to Paris and to those parts where the greatest distress had been felt."

"You have stated that you attribute the present high price of gold above the mint price, and the unfavorable state of the exchange, to the excessive issues of the Bank of England, influencing thereby the general paper circulation of the country; have you any other reason for deeming the issues of the Bank of England to

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be excessive, except that indication which you collect from the price of gold and the state of the exchange?"

"I never saw these effects produced by any other cause, in any country in the world."

"Is the committee to understand your opinion to be, that a high price of gold and an unfavourable state of the exchange ought, in the discretion of the Bank of England, to lead to a reduction of their issues until that high price of gold or unfavourable state of exchange is reduced, if not to par, to that price above par, which amounts to the expense of transfer of the precious metals from one country to the other?"

"I am decidedly of that opinion."

"Is the committee to understand you to be of opinion that that is the true criterion for the Bank to look to, whether the Bank be open or shut?"

"It is, in my conception, the only criterion."

"I consider the same doctrine to hold good in the case of war as well as of peace."

"You are of opinion that the partial openings of the Bank failed in effect, because the Bank did not simultaneously contract their paper issues, and not because a partial opening would in no case have any effect whatever?"

"In my view of the subject, a partial opening will always fail unless the whole currency of the country be previously reduced in amount, so as to restore it to the standard of the metallic currency thus partially issued."

"Of that restoration, you are understood to admit no other test than the favourableness of exchange and the reduction of the price of gold to the mint price?"

"I know of no other test."

"If we reduced the amount of our paper circulation sufficiently, the precious metals would flow into the country from every direction—no act of parliament could stop the current."

"I should consider it a breach of contract for the government of this country to alter the mint price of gold."

This witness entered into numerous details in support of his opinions, which would be too long to insert here.

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116. Mr. William Ward, a Bank director, a cambist and Mediterranean merchant. Lords' Committee, p. 60.

"You have stated that a reduction of four millions in the amount of Bank notes in circulation, would probably produce a favourable turn in the exchanges; do you found such an opinion upon reasoning, or upon having observed as a cambist, that the diminution or increase in the numerical amount of Bank notes has usually produced corresponding effects upon the exchanges, and the price of gold in this country since the Bank restriction?"

"I ground my opinion upon reasoning; I do not rely upon the numerical amount of Bank notes exclusively."

"Can we confidently depend upon the effect of a reduction of Bank notes towards producing a favourable exchange?"

"I would rely upon it in an exchange transaction where my own interest was at stake."

To the Commons' Committee, p. 73.

"To what extent do you conceive the rate of exchange and the price of gold are affected by the issue of Bank notes?"

"I conceive they are affected to a very considerable extent directly, or indirectly."

"Supposing the other causes which affect the exchange, to operate equally at two different periods, do you think the price of gold, and the rate of exchange, would be the criterion by which you might judge of the adequate or excessive issue of bank notes?"

"Yes, I do."

"Under a system of cash payments, do you believe that the market price of gold will ever be permanently above the mint price, or the rate of our foreign exchanges more below par than would amount to the expense of the transmission of gold from this country to the Continent?"

"No; the market price would not exceed the mint price permanently."

"Then, would the Bank ever have occasion to pay more than the mint price for the gold they purchase?"

"I conceive they would not have to pay more."

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117. Mr. Samuel Thornton, Bank director for thirty-nine years. Commons' Committee, p. 85.

"In regulating the amount of their issues, by what principle is the conduct of the Bank of England guided?"

"I have always considered it my duty to consider the amount of the notes out, and what could be the cause for a call for an increase. I also felt it my duty to look at the state of the foreign exchanges, and the price of bullion."

"Have the goodness to state your reason for thinking it desirable to take into the account the rate of exchange, and the price of bullion, in regulating the amount of the issues."

"It must be obvious that if there were an excess of Bank notes beyond what was required by the trade of the country, the price of bullion would thereby be raised; and I am ready to admit that it would have the same effect upon the exchanges."

118. Mr. John Irving, of the firm of Reid, Irving and Co. Commons' Committee, p. 94.

Putting out of consideration the embarrassment of trade which might be occasioned by a limitation of the issues of the Bank, do you think it is in the power of the Bank, by such limitation, to restore a favourable rate of exchange, and to reduce the price of gold?"

"I am of that opinion."

"Could such fluctuations take place if we possessed a metallic currency, as to the measure of our exchange with foreign countries?"

"Certainly not."

119. Mr. Holland, a partner of Baring, Brothers and Co. Commons' Committee, p. 114.

"In what degree do you consider that the foreign exchanges are affected by the increase or diminution of Bank of England paper?"

"I certainly consider that the foreign exchanges are affected by the increase of Bank of England paper"

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"Do you think a considerable reduction of the amount of Bank of England paper would have the effect of restoring the exchange in favour of this country, and of preventing any very considerable depression?"

"That is my opinion."

"As you consider there would be no great fluctuation in the price of gold, supposing the circulation of this country to consist of coin, or paper convertible into coin, to what do you attribute the present fluctuations?"

"The quantity of paper in the market is greater than the market can bear. If it is thought desirable to reduce the price of gold to £3 17s. 10½d., I conceive that that can only be done by a reduction of the paper."

"You have stated that action and re-action will bring exchanges round, and bring gold to its level; if that is the case, in what way can you account for the circumstance, that the coin has, from the beginning of his present Majesty's reign, constantly found its way out of the country, and not found any re-action to bring it back again?"

"If the market price of gold is higher than the mint price, it is impossible to keep it in the country."

"Would you not think one of the circumstances that would render the exchanges unfavourable to this country, and raise the price of gold above the mint price, to be an unfavourable state of things in this country, or in other words, a balance of payments against the country?"

"No, I do not; because I should call gold the general leveller between all commercial nations, and that it invariably brings back the exchanges to their proper level, taking gold against gold, as the standard of value."

"If the Bank of England paid in specie upon demand, do you believe there ever could exist, for any length of time, a material difference between the mint and the market price of gold?"

"Decidedly not, in my opinion."

120. Mr. Thomas Tooke. *Lords' Committee*, p. 168.

"By what means do you think that the exchanges could be restored, and the price of gold reduced?"

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" By keeping down the Bank issues of their notes to their present amount, and judging by the course of exchange, and of the bullion market, how far any further reduction might be necessary to accomplish that object."

" What do you mean by our circulation being at a level with that of other countries?"

" When the price of bullion and the exchanges combined, are at, or within a trifle of par."

" Do you consider a favourable course of exchange as an indication that there is not an excess of paper issues?"

" If that state of exchange is of any considerable duration, it affords a presumption that the issue has not been excessive during that period, but the only undeniable test is the price of gold being that into which the paper is convertible."

" It appearing by accounts before the committee that from the 13th April, 1804, to the 17th November, 1805, being eighteen months, that the market price of gold was uniformly £4, and that during the same period of eighteen months the course of exchange was uniformly in our favor, are you of opinion that during that time there was an excess of paper issued?"

" Upon the whole, I should answer in the affirmative, as I have before said that I consider the price of gold to be the only unerring test, and that the exchanges, even for moderately long intervals, afford only a presumption."

" State the ground upon which you consider the price of bullion as a surer test of the question of the excessive issue of paper, than the course of exchanges?"

" Because, if the coin be perfect, and the paper strictly convertible into that coin, there cannot be any inducement to any individual (the Bank issuing the paper excepted) to give more than £3 17s. 10½d. per oz. for gold of the same standard, while the exchange may be influenced by several circumstances, within the limits in time in which, and of expence at which, the coin could be brought from one country to the other. The exchange may, therefore, fluctuate, while the price of gold remains stationary."

" Do you mean by an excess of paper issued, not an excess above what the demand of internal commerce may require, but an excess above that amount to which you think the paper should be

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reduced, in order to bring the market price of gold down to the mint price?"

"I do not know any criterion of the internal demand for a medium of circulation, but that amount which would have circulated if the currency had consisted of coin only, or coin and paper convertible into coin."

121. Mr. Ricardo. Lords' Committee, p. 187.

"The Bank has always the power to regulate the price of bullion by limiting or increasing the quantity of their notes."

Commons' Committee, p. 133.

"Do you conceive that the paper currency of this country is now excessive, and depreciated in comparison with gold, and that the high price of bullion, and low rate of exchange, are the consequences as well as the sign of that depreciation?"

"Yes, I do."

"Then do you consider the high price of gold to be a certain sign of the depreciation of Bank notes?"

"I consider it to be a certain sign of the depreciation of Bank notes, because I consider the standard of the currency to be bullion, and whether that bullion be more or less valuable, the paper ought to conform to that value, and would under the system we pursued previously to 1797."

"It appears by the accounts already referred to, that the price of gold in this country, in April, 1815, was £5 7s., and in April, 1816, £4 1s., being a difference of from 25 to 30 per cent., such price being always measured in our paper currency; do you know whether during the same period, any such variation, or any variation in the price of gold, took place in France, or in any other continental country?"

"It appears to me that in France there can be no variation in the price of the metal, which is the standard of the currency, and, with respect to the variations in the other metal, which is not the standard of the currency, it must at all times be confined to the

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variations which take place in the relative value of the two metals generally in Europe."

"If then it should appear that during the period referred to, no variation whatever has taken place in the price of gold in Paris, would you infer from that circumstance that the variation in the price of gold between April, 1815, and April, 1816, arose from the variation in the value of paper, and not of gold?"

"Every fall in the price of the standard metal is immediately corrected in France, by a reduction of the amount of the circulation; if no similar reduction takes place under the same circumstances in our circulation, there must necessarily be a redundancy, and an excess of the market above the mint price of gold; IN A SOUND STATE OF THE CURRENCY THE VALUE OF GOLD MAY VARY BUT ITS PRICE CANNOT."

"The variation you alluded to in your answer to a former question is what you meant by the depreciation of the paper in your answer to a question before put to you?"

"From whatever cause may arise the difference in the value between paper and gold, (and I have enumerated several), I always call the paper depreciated when the market price exceeds the mint price of gold."

"Do you consider the difference between the market and mint price of gold to be the criterion of the depreciation of Bank notes?"

"Strictly so."

"Do you not consider that coin or bullion are distinguishable from Bank notes in this important respect, that the coin or bullion being the medium of universal exchange, operates in the nature of a bill of exchange*, whereas the bank note does not possess this quality; must not, therefore, the value of the coin or bullion follow the rate of the exchange, whilst the Bank note cannot be influenced by such an operation?"

"Certainly; a Bank note not payable in specie is confined to our circulation, and cannot make a foreign payment; a Bank note payable in specie is the same thing as coin or bullion."

"May not this distinguishing quality between the Bank note

* Vide Vol. I., p. 30.

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and the bullion explain the difference of value, without its following that the Bank note is depreciated for any purpose of measuring the value of commodities within the country?"

"No, I think it cannot; the term depreciation, I conceive, does not mean a mere diminution in value, *but it means a diminished relative value, or a comparison with something which is a standard.* And, therefore, I think it quite possible that a Bank note may be depreciated, although it should rise in value, if it did not rise in value in a degree equal to the standard, by which only its depreciation is measured."

"You have stated an opinion, that the contraction of issues of paper would at all times restore the price of gold to the mint price, and render the exchange favourable to the country; supposing the balance of payments of the country to be against us, in what manner would you have them paid?"

"It appears to me that a reduction in the amount of currency may always restore the price of bullion to the mint price; but I have not said that that will always restore the exchange to par."

122. Mr. Alexander Baring, afterwards Lord Ashburton. Lords' Committee, p. 101.

"Is it your opinion that the exchanges and the price of gold are affected by the increase or diminution of the circulation of the notes of the Bank of England?"

"I can have no doubt of it whatever; I have always considered the price of bullion and the rates of exchange, which, for this purpose, are the same things, dependent on the paper circulation, and liable to be regulated by its contraction or expansion. I do not mean to say that the foreign exchanges, or the price of bullion would vary always in proportion to any alteration in the amount of the paper of the Bank of England, or even of the paper of the country at large, because there are various circumstances which, at different times, vary the amount of the circulating medium required for the use of every country; and sometimes, for instance, twenty-five millions of bank paper may be too much, when, at another period thirty millions may be too little. It is the great defect of a paper currency, that it cannot adapt itself to this change of circumstances."

"Are you of opinion that the loans which have been contracted

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for in foreign states, particularly in France, since the peace, have had an unfavourable effect upon the exchange of this country?"

"The circulation of the country being in its present state, payments abroad, from whatever cause arising, must have an effect upon the exchange."

"What do you mean by the present state of the circulation of the country?"

"I mean that if the circulation were in its former state of payment in specie, that no payments abroad would bring the exchanges materially below their par; but with a paper which has no regulator of its value, it is undoubtedly liable to depreciation by foreign payments, as has been amply proven in the course of the last war."

"Were you at Paris at the time of the great crisis of the Bank of Paris?"

"I was, and I believe the information conveyed in the Governor's report to the proprietors in January last, as to the effect of the reduction of their issues upon foreign exchanges, and upon the amount of bullion in their vaults, to be correctly stated. The effect of the reduction of their discounts upon the exchanges, and upon their bullion, seems to me singularly applicable to the present question. Their bullion was reduced, by imprudent issues, from 117 millions of francs to 34 millions of francs, and has returned, by more prudent and cautious measures, to 100 millions of francs, at which it stood ten days ago."

"Are we to understand, then, that in your judgment, considerable importations of grain in years of unfavourable harvests would have an unfavourable effect upon the exchange?"

"I think it would, in any country having a circulation of paper, not payable on demand, and when there are no means of contracting its amount, so as to perform for the circulation the same office which a sound circulation of specie would do for itself."

"Would it have the same, or any, effect in a country where the circulation was partly of specie, and partly of paper, convertible into specie, as before the Bank restriction?"

"I think that no demand, however pressing and of whatever nature, would make such a fall in the exchanges as would exceed the expense of the transport of coin, combined with the risk of the violation of the law, so long as a law exists against exporting the

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coin. This opinion, founded as it is upon the principle of circulation, is amply confirmed by the uniform experience of this country before the restriction of cash payments, and of every other country with which I have been acquainted. This principle has been put, perhaps, more severely to the test, within the last two years in France, than in any other instance. France having had a large payment to make abroad, beyond the apparent means of her commerce, and without any equivalent return, and these payments having produced no derangement whatever of the circulation of that country."

123. Mr. John Ward, general merchant, with much experience in money operations. Commons' Committee, p. 239.

"Is it your opinion that the rate of foreign exchanges, and the market price of gold, are affected by an increase or diminution in the amount of Bank paper?"

"Certainly."

"Do you think it would be in the power of the Bank, by a reduction in the amount of their paper issues, to restore a favourable rate of exchange, and to reduce the market price of gold to the mint price?"

"That is my opinion."

"Are you of opinion that under the restriction of cash payments, the excess of the market price above the mint price of gold is an indication of the paper currency being depreciated, during the restriction of cash payments?"

"Certainly."

"Is the amount of that excess of the market above the mint price of gold the measure of that depreciation in your opinion?"

"It is."

"You have stated that you consider the paper of the Bank of England to have been depreciated by excessive issue, during how long a period do you consider that depreciation to have existed?"

"I cannot distinctly state for how long a period unless I could compare it with the value of gold."

"About how long?"

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"So long as the price of gold bullion has been above the mint price."

124. The above extracts, which are only a portion of the evidence given by the great majority of the witnesses, are sufficient to shew the extraordinary change which had taken place in the opinion of the commercial world since the report of the bullion committee, with respect to the great question of the connection between the paper currency, the price of bullion, and the foreign exchanges. The old opinions had scarcely a voice in their favour; even Mr. Harman, who had in all previous occasions been the stoutest antagonist of the principles of the bullion report, was considerably shaken in his opinion. Notwithstanding, however, that the governor and deputy-governor, and several other directors of the Bank, had given in their adherence to these doctrines, the majority of the court still persisted in the old opinions, and on the occasion of some questions having been sent for their consideration by the committee of the House of Commons, took the opportunity of recording publicly their disapproval of the doctrines which were now in the ascendant. On the 25th March they resolved—

"That this court cannot refrain from adverting to an opinion, strongly insisted upon by some, that the Bank has only to reduce its issues, to obtain a favourable turn in the exchanges, and a consequent influx of the precious metals; the court conceives it to be its duty to declare that it is unable to discover any solid foundation for such a sentiment."*

125. The report of the Lords' committee contented itself with recording the opinions of the different wit-

* Commons' Report, p. 263.

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nesses upon the great question so long agitated, it pronounced no judgment of its own upon the soundness of the different views. It, however, was very decided in the recommendation to return to the ancient metallic standard as speedily as could be done, with a due regard to the interests of commerce. The committee of the Commons expressed their opinion that when the exchanges became unfavorable, and the market price of gold rose above the mint price, the only mode in which the Bank could have retained the coin in circulation was by contracting their issues.* And they said that, however the exchanges might have been affected during the last and preceding year, they had no reason to apprehend the same or any other causes could continue to affect them, in such a degree as to preclude the Bank of England, by a constant reference to the exchanges and the price of gold, and, when necessary, by a cautious reduction of their paper currency, from gradually approximating its value to that of gold, and ultimately re-establishing and maintaining it at par. Both Houses agreed in recommending that after the 1st February, 1820, the Bank should be required to deliver gold of standard fineness in quantities of not less than 60 ounces, at £4 1s. per ounce; that after the 1st October, 1820, the rate should be reduced to £3 19s. 6d.; and after the 1st May, 1821, it should be reduced to the mint price of £3 17s. 10½d. per ounce, that this liability to pay in bullion should continue for not less than two, nor more than three years from 1st May, 1821, when payments in cash should be resumed. They also expressed their opinion that the great destruction of country bank paper in 1816-7, had been partly instrumental in reducing the price of gold,

* Commons' Report, p. 5.

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and making the exchanges favorable during that period. That, from the numerous circumstances affecting the value of Bank of England paper—the varying state of commercial credit and confidence—the fluctuations in the amount of country bank paper, and other reasons, no satisfactory conclusion could be drawn from the mere numerical amount of their issue at any given time.*

126. The report was brought before the Lords on the 21st May, 1819, when a petition signed by about 500 merchants, bankers, and others, was presented against it, on the ground that the extensive contraction of the Bank's issue in so short a time, as would be rendered necessary by it, would cause general embarrassment. The directors of the Bank communicated a very strong representation containing similar views, to Lord Liverpool, which was also laid before the House. Lord Harrowby, however, that evening, brought in the ministerial resolutions, which were framed in accordance with the report, and the last of which was:—"That it was expedient to repeal all laws prohibiting the melting or exportation of the gold or silver coin of the realm." Lord Lauderdale moved a series of resolutions in opposition, the principal of which was the mint price of gold should be altered to correspond with the market price.

127. The resolutions were moved in the Lords by Lord Liverpool† in a speech of singular clearness and ability. Every word that he uttered told with crushing effect upon the course of the Government in 1810. He was an entire convert to the principles of the Bullion Report, in their fullest extent. He said that the three chief points in question were, whether—1. It was expe-

* Report, p. 20.

† Parl. Debs. Vol. XL p. 610.

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dient to return to some fixed standard of value. 2. Whether that standard should be the ancient one. 3. By what means it could be done. That the first point was the most important, because it would be found that all the opposition to the measure was simply a disguised hostility to return to cash payments at all. Many considered that there should be no standard of value; but what civilized country had ever acted upon this principle since the world began? In former times the most disgraceful measures had been resorted to, to depreciate the standard, but even that was not so bad as having *no* standard. No country in the world had ever established a currency without a fixed standard of value; it might be gold, silver, copper, or even iron, but it must be something which had a real value, it could not be paper which had no real value but is only a promise of value, and England, the first country for commerce and knowledge of political economy, should not be the first to confer on any body of men, however pure their motives and conduct, the power of making money according to the suggestions of their own interests. Policy, good faith, and common honesty called on them to return to the ancient standard. No doubt some of the public debts were contracted in a depeciated currency, but yet the contract was to pay according to the ancient standard, and they must adhere to that if they meant to act honestly. He ridiculed the idea of the danger or difficulty of doing so. In 1816 gold fell to the mint price, and when it was quoted at £3 18s. 6d. in the public lists, it might in fact have been bought cheaper, only the Bank determined to be the only purchaser, and gave that price. Since then it had risen to 6½ per cent above the mint price, but at the time he was speaking, it was only 3 per cent. above the standard price. A noble earl had doubted whether it was in the Bank's

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power to bring gold to the mint price by contracting its issues. The question was, no doubt, somewhat obscure, but the report would show that there was not a single practical man, even among those most hostile to the intended measure, who did not admit that a contraction of the Bank's issues must necessarily have the effect of rendering the exchange favourable to this country, and of lowering the price of bullion. He himself entertained no doubt upon the point. The plan proposed by the resolutions, gave ample time for the Bank to make all necessary preparations without injury to the commercial interests by too sudden a contraction. The subject of the quantity of the circulating medium necessary for commercial transactions was one of the greatest importance; it was one, however, in which it was impossible to fix any nice proportion, and in his opinion THE ONLY CRITERION OF A CIRCULATION BEING SUFFICIENT OR EXCESSIVE WAS TO BE FOUND SOLELY IN ITS VALUE WHEN COMPARED WITH THE PRECIOUS METALS. The real value of paper could only be ascertained by its convertibility into specie. If that test was adopted it made little difference what the circulating medum was composed of. In Lancashire it chiefly consisted of bills of exchange, which was found to succeed perfectly in that county. If any county or district was possessed of real and substantial wealth, it would soon find a circulating medium for itself. The measures proposed, in his opinion, would lead to no inconvenience; if any could have arisen, they had been incurred already, and if parliament would steadily adhere to the course recommended, they would see the ancient standard restored without material distress to any one.

128. Lord Lauderdale made some severe remarks upon the strong speech made by Lord Liverpool in favor of the very doctrines he had been twelve years in contro-

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verting. Lord King* heartily approved of the resolutions, and especially that the time was fixed by parliament, when the Bank should resume cash payments, as the public would now have a security beyond the discretion of the Bank directors. The numerical amount of Bank notes could be no guidance for the amount of issues. The only rule which could be given for their regulation was to keep gold at the Mint price. This was the only check on the vicious practice which 22 years' usage had accustomed some to consider as the natural state of the currency of the country.

129. Lord Grenville spoke with great earnestness in favour of the resolutions, and his sentiments deserve the most particular attention because he was one of the cabinet who originally proposed the restriction Act. He now, however, came forward to repeat in the most emphatic terms what he had already avowed, that he considered the restriction as one of the greatest calamities under which this suffering country laboured. He had frequently had occasion to lament and deplore the part which he had himself taken on its original proposition, in prolonging it for the term of the then existing war. Having avowed his error in so doing as became an honest man, at the commencement of the last war, and having foreseen, but too truly, all the misery that followed, he felt great joy that the country could now look forward with certainty to the repeal of that injudicious and unfortunate measure. There was no difference in principle between the excessive issues of the Bank of England and those of Austria, Prussia, and Russia. He was most anxious to place on record his opinion, that the evils of the restriction had far counterbalanced its good, and that

* Parl. Debs. Vol. XL. p. 640.

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future statesmen might know that the opinion that this measure had saved the country was not unanimous. He hoped it would be recorded of him, as his decided conviction, that in proportion to the danger under which the country laboured, was the impolicy and desperate madness of such a measure, as they were now considering how to rescind. Whatever temporary advantages might be furnished to individuals from too liberal issues, those very individuals generally suffered tenfold injury. While the Bank was lending money with one hand, with the other it was shaking the foundation of contracts, affecting all prices, involving the country in distress, and individuals in ruin ten times greater than any benefits they could derive from liberal issues. Increased bankruptcies invariably followed increased issues. The miseries of 1816 were the sure consequences of the extravagant issues of the preceding year; the country bank paper, which was not propped up by law like Bank paper, was fearfully depreciated, and had involved the whole kingdom in general desolation. Trade, commerce, agriculture, the classes even most remote from any connection with the paper system, found themselves suddenly consigned to total and inexplicable ruin. The sight of the misery thus caused would fill them with horror. In commerce, as in war, there could be but one sure basis of management, and that was a currency regulated by a standard of metallic value. Not that metal was necessary as *metal*, but as possessing *value*. It was impossible to represent value except by value. For this reason, all civilized countries had adopted a metallic standard. The original names of the divisions of money in all known languages, referred to the weight of the metal. It was so among the Hebrews, the Greeks, the Romans, the French, the English. The pound in England, and the

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livre in France, were originally a pound weight of metal. The weight of the metal had been diminished in each country in the coins at different periods, but each case of such reduction was a fraud upon the people, and it had always been done in times of discontent and turbulence. It was attempted to be done in the days of Edward VI., but the advisers of the measure were compelled to retrace their steps through fear of an insurrection. It was time, therefore, to return to a fixed measure, and to put an end to a system of variable value, when every one's property was at the mercy of a body of individuals. We must have a currency established on public faith—on public laws. The depreciation of the paper currency had been nearly one-third, and every one who held it had lost to that amount. There was no disposition now in any class to deny this. The directors of the Bank of England alone refused to admit the principles of the Bullion Report—so wisely and irrefragably established by that great man, the late Mr. Horner—a report which could not be read without instruction and admiration, for the depth and soundness of its doctrines, and bitter regret for the premature loss of a statesman who was so well calculated to serve and adorn his country. If the directors would only now believe in the Bullion Report, there might be some hope of them, but as they did not, they were the last persons who should be left to manage the currency at their own discretion. He did not believe in any calculations as to the quantity of circulating medium necessary. It was now time that the connexion between the Government and the Bank of England should be dissolved. It was in direct violation of the principles upon which the Bank was founded. They must revert to the legitimate standard of this country, in respect to its currency. It was not the value of that currency, but the value of the metal by

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which it was regulated, as paper was regulated by the price of bullion. In the Bullion Report, which hereafter he did not doubt WOULD FORM A STANDARD, CONSTANT, AND UNERRING, in the political economy of this country, of whose extraordinary merit he was not aware until lately, this subject was clearly defined. He gave his entire, unlimited, and unqualified approbation to the ministerial resolutions.

130. Such are short outlines of the speeches of Lord Liverpool and Lord Grenville upon this momentous question, which well deserve to be studied at length in the present time, when many of the heresies and fallacies they combated so strongly and convincingly, seem springing up again in the public mind. The resolutions were then put and agreed to without a division.

131. The resolutions in the Commons were introduced by Mr. Peel, on the 24th May,* who freely owned that in consequence of the evidence he had heard, and the discussions upon it, his opinions had undergone a material change. He acknowledged without shame or remorse, that his opinions were very different now to what they were when he voted against Mr. Horner's resolution in 1811. Having determined to dismiss from his mind all former impressions, and the memory of the vote he had formerly given, and to give the question his unprejudiced and undivided attention, he had now come to the conclusion that Mr. Horner's resolutions represented the true nature and laws of our monetary system. Every sound writer agreed that the true standard of value consisted of a definite quantity of gold bullion, a certain weight of which, with an impression on it denoting it to be of that certain weight and fineness, constituted the only true

* Parl. Debs. Vol. XL. p. 676.

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intelligible and adequate standard of value. No doubt the Bank was perfectly solvent, but did it follow from that, that there could be no over-issue of its paper? If solvency alone was a sufficient proof that there was no excess of circulation, the theory of Mr. Law was just, and the land as well as the funds might be safely converted into a circulating medium. There was, in fact, no test of excess or deficiency but a comparison with the price of gold. As the Bank had so entirely repudiated the principles of the Bullion Report, they could not be expected to act upon them; it might therefore appear necessary to prescribe such a limitation of their issues as would secure the power of the Bank over the foreign exchanges. He himself thought this a very unwise plan, because it depended so much on circumstances, whether or not there was an excess of circulation. *There were occasions when what was called a run on the Bank might be arrested in its injurious consequences by an increase of its issues.* There were other occasions when such a state of things demanded a curtailment. In the year 1797, when a run was made on the Bank, but when the exchanges were favourable, and the price of gold had not risen, it was proved that an extension of issues might, by restoring confidence, have rendered the original restrictions unnecessary. On the other hand, if the run was the effect of unfavourable exchanges and the consequent rise in the price of gold, the alarm must be met by a reduction of the issues. *It was, therefore, impossible to prescribe any specific limitation of issues* to be brought into operation at any period however remote. The quantity of circulation which was demanded in a time of confidence varied so materially from the amount which a period of despondency required, *that it was an absolute impossibility to fix any circumscribed amount.* He said that the time was

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come when the connection that existed between the government and the Bank must be dissolved, and it must revert to its original principle of business. The obstinate opinions of the directors of the Bank shewed that they were unfit to be trusted with the management of the pecuniary interests of the British commnnity. The House must resume its powers which it had abdicated too long. There could be no inconvenience in compelling the Bank to pay in specie at the mint price. They had done so from 1776 to 1797, and the price of gold never rose above £3 17s. 6d. But it was said that it had since risen to £5 2s. and that the standard was variable. The fact was, we had since then introduced a substitute for gold, and its price was considered in relation to that substitute. Let not the House be led away by any calculation to mistake the PRICE for the VALUE. When people talked of gold rising in *price*, were they prepared to show that it had risen in *intrinsic value?* Let them not talk of its price in paper, but in any other commodity of a real and fixed value. So far from gold having risen in value, since the last fifty years, it had actually fallen in value, partly from the greater abundance of the metal itself, and partly from the substitutes that were used for it. A very prevalent theory was, that instead of regulating paper by the value of gold—gold should be regulated by the value of paper. This was nothing less than a fraud upon the public creditor. It was vain to think that foreign nations could be imposed upon by such a deception. The only result would be that after the public creditor had been cheated, the coin would be debased. The only course was to revert to the ancient standard of the realm, and to beware of arguments which were not only fraudulent, but would not accomplish their own objects, while they would aggravate present difficulties. Every deviation from the ancient

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practice would be quoted as a precedent for a more extended departure from that practice. Under future difficulties the conduct of their ancestors would be panegyrised by the advocates of the suspension of cash payments, and conclude because the price of gold had risen still further in its relation to paper, that the principle by analogy ought to be extended. The restoration of the value of our currency had always been a striking political feature in the history of the country, and an object of the most earnest solicitude of our most distinguished statesmen. Three periods were especially memorable for great reforms in the coinage—in the reigns of Edward I., Queen Elizabeth, and William III. These periods must ever be regarded with pride and satisfaction. They were of much greater difficulty than the present. On Queen Elizabeth's accession, the coin was reduced to ¼ of its nominal value. Under Burleigh's advice she resolved to restore the value. Plenty of persons dissuaded her from that idea, alleging the difficulties of the attempt. But Burleigh maintained that those very difficulties should constitute the motives for perseverance, as they must raise and establish the character of the country, and inspire its enemies with respect. The Queen had nobly persevered, and in her monumental inscription, above all her titles to distinction, this one shone preeminent, "MONETA IN JUSTUM VALOREM REDUCTA." He then detailed the restoration of the coinage by William III. The arguments against it in those times were identical with those used against it at the present time. However, fortunately, the firmness of King William and Mr. Montague triumphed over prejudices in theory, misconceptions in reasoning, and the greatest financial and political difficulties. The idea that this country owed its glory and military honours to an inconvertible paper currency was ridi-

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culous; we had abundance of prosperity and military glory before 1797, before we were blessed with an inconvertible paper currency. The true reason of her difference from other states was that she had always kept her faith inviolate. It was this that cheered the country under all dangers, and caused her to exult in victory. It was this feeling that carried the country through the dismal voyage she had just accomplished, and now that they had reached the other shore in safety, let them not abandon the great principle which had supported them. Every consideration of policy, good faith, and justice, called upon them to restore the ancient and permanent standard of value. He allowed that he had once entertained views different from those he now held, but he had given his mind candidly to a re-investigation of the whole subject, and he felt himself bound to state honestly, that he was now a convert to the doctrines regarding our currency he had once opposed.

132. The debate that followed was chiefly composed of a strain of congratulation and rejoicing at the course adopted by the government, and approval of the resolutions. Mr. Tierney* was averse to compliment Mr. Peel too much, as he was thereby only complimenting the opinions he himself and his friends had been advocating for many years. But nevertheless, it was a source of sincere pleasure to him, to see the maxims he had so long been contending for, adopted as true policy by the House, especially as such ample justice had been done to them by Mr. Peel, who now avowed them for the first time. Mr. Ricardo† said that when the directors of the Bank were called individually before the committee, they fully admitted that the price of gold and the foreign exchanges

* Parl. Debs. Vol. XL. p. 723. † Ibid, p. 742.

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were affected by the amount of their issues, but when collected as a court they resolved in direct opposition to such opinions. When they avowed such inconsistent opinions, and after the experience the House had had of their conduct, it would be the highest indiscretion in parliament not to take the preparations for the resumption of cash payments out of their hands. Mr. Alderman Heygate* was almost left alone, to adhere to the opinions of parliament in 1811, he maintained that no depreciation of the paper did exist at that time, or ever could exist. However, the current of opinion was so strong and unanimous, that though some unimportant amendments were brought forward, modifying some details in the resolutions, but not at all denying their general truth, these were all withdrawn, and the resolutions were passed without a dissentient voice, Mr. Canning declaring amidst loud and general cheering, that it was the unanimous determination of parliament that the country should return as soon as possible to the ancient standard of value, in the establishment of a metallic currency. The bill passed the Commons with little further remark.

133. In the House of Lords the Marquis of Lansdowne rejoiced at the introduction of the bill, on account of the sound principles of political economy it contained, by recognising a metallic standard as the only safe foundation for the circulating medium. It recognised the great principles, that the price of gold and the foreign exchanges depended upon the state of the currency. He hoped the country never again would hear the wild theories about the currency, which had been so prevalent, which were very properly stigmatised by the bill before them, every enactment of which declared their falsehood. By acting

* Parl. Debs. Vol. XL. p. 750.

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on those ruinous ideas, the country had been burdened with an overwhelming mass of debt and taxation. The Earl of Liverpool said the bill had met with no opposition, and required no defence. The chief provisions of this Act, Statute 1819, c. 49, were:—

1. "The acts then in force for restraining cash payments should be continued till the 1st May, 1823, when they were finally to cease."

2. "That on and after the 1st Feburary, and before the 1st October, 1820, the Bank of England should be bound on any person presenting an amount of their notes, not less than of the value or price of 60 ounces, to pay them on demand, at the rate of £4 1s. per ounce, in standard gold bullion, stamped and assayed at the mint."

3. "That between the 1st October, 1820, and the 1st May, 1821, it should pay in a similar manner in gold bullion at the rate of £3 19s. 6d. per ounce."

4. "That between the 1st May, 1821, and 1st May, 1823, the rate of the gold bullion should be £3 17s. 10½d. per ounce."

5. "During the first period above mentioned, it might pay in gold bullion, at any rate, less than £4 1s., and not less than £3 19s. 6d. per ounce; in the second period, at any rate, less than £3 19s. 6d., and not less than £3 17s. 10½d., upon giving three days' notice in the gazette, and specifying the rate; but after doing so, they were not to raise it again."

6. "These payments were to be made in bars or ingots of the weight of 60 oz. each, and the bank might pay any fractional sum less than 40s. above that in the legal silver coin."

7. "The trade in gold bullion and coin was declared entirely free and unrestrained."

134. In conjunction with this Act, a most salutary measure was passed (Statute 1819, c. 76) to put a stop to the evil which the Bank directors themselves alleged had brought about the catastrophe of 1797, viz., the enormous sums the government had been in the habit of

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demanding from the Bank by way of advances, without any parliamentary security, which Mr. Pitt had so grossly abused. By this act, this Bank was forbidden to make any advances of any description, without the express and distinct authority of parliament for that purpose first had and obtained.

135. Thus, at length, this great act of national good faith was accomplished. The final triumph of these great principles of truth and honesty is a memorable example of the innate power of truth to gain the ultimate victory when allowed the inestimable advantage of free discussion. No one of ordinary intelligence will now venture to deny that the currency was greatly depreciated at the time the Bullion Committee were appointed, and if the coin had been degraded to the value of the paper, it would simply have been a national bankruptcy. An amazing amount of ingenious sophistry was employed, no doubt much of it proceeding from honest though mistaken conviction, a still larger portion of it arising from the supposed interests of commerce, to maintain that Bank notes were not depreciated. The real truth, however, was discovered by Mr. Thornton and Lord King, and published by them, in the pamphlets alluded to above. It was unhesitatingly adopted by the greatest statesmen of that day, as appears by the report of the committee of 1804 ; it was then pronounced more loudly and distinctly, and with greater authority by the Bullion Committee in 1811, but it was ridiculed and condemned by the great majority of the commercial world, whose wild speculations it had a tendency to curb, and rejected by an immense majority in parliament in 1811. But the labor was not wasted in vain. The seeds of truth were firmly planted in the public mind; the doctrines thus despised and rejected in 1811, were sifted and

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discussed by the public during the next eight years, and when the next discussion upon them took place in 1819, they had obtained the irresistible ascendency in the public mind, so that they were enthusiastically adopted by parliament without a dissentient voice.

136. The overwhelming preponderance of mercantile opinion in 1819, adhered to the doctrines of the Bullion Report. One body alone obstinately refused to be convinced—the majority of the court of directors of the Bank of England. Six of their directors had given their evidence in favor of the new doctrines; but the court determined with inveterate pertinacity to have a last fling at them, and passed the resolution we have already quoted. It took eight years longer for the light to penetrate the Bank parlor. At length, in 1827, the Bank was at last compelled to strike its colours, and the resolution of 1819 was solemnly expunged from its books.

137. When, as we have already seen, the doctrine of the rise of the market price of bullion, and the fall of the foreign exchanges from a depreciated currency, were so well understood by the merchants and statesmen of 1696—7, and the political economists of the last century, it may be interesting to inquire what was the fallacy that so long imposed upon men of undoubted ability, and who doubtless held their convictions in perfect good faith and honesty? What was the cause of the great degeneracy in sound doctrine between 1696 and 1811, so that it became necessary to argue the question from its very foundations? It was this, that the men of 1696 could see that the coinage did not contain much more than half of its proper weight of bullion. But the men of 1811 failed to see that the Bank note could only preserve its value by maintaining a certain proportion with the metallic currency. That an excess of *quantity* of the notes diminished

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their value relatively to gold; and this diminution in the value of the promise compared to what it professed to represent, was exactly identical in principle with a debasement of the coinage by alloy, or a depreciation of it from deficiency in weight of bullion. When the Bank note became the measure of value, it was imperatively necessary that they should be able to purchase in the market the weight of bullion they professed to represent. When bullion rose to £5 10s. when paid in Bank notes, they were exactly in the same predicament as the coinage was under William III., when it had lost 25 per cent. of its weight. The diminution in the weight of the coinage was palpable to the senses, the diminution of the value of the "promise to pay" was only perceptible to the eye of reason and intelligence, and long escaped the observation of men who conscientiously disbelieved it.

138. We will now bring this long but important discussion to a close by observing that the grand principles of the Bullion Report are not what are properly termed matters of OPINION at all, but of DEMONSTRATION. Persons of the most excellent taste and judgment may entertain the widest differences of opinion on the comparative merits of various poems, or pictures, or pieces of music. There is no absolute standard of truth, which will enable any man to assume the office of an arbiter on any of these subjects, at least none has yet been discovered. Different poets, artists, and musicians are most in harmony with different mental constitutions, of which there is no unerring standard of excellence. So in politics, it is a pure matter of opinion and judgment which is the best form of government, and which is most suitable for any particular people. But the principles of monetary science, as laid down in the Bullion Report, are matters of a totally different nature, *they are matters of pure geome-*

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trical demonstration. They are no more matters of opinion, in the proper sense of the expression, than the demonstrations of Euclid are matters of opinion. It is acknowledged that there is an absolute standard of truth in such matters. There are many excellent persons, and of good ability in other respects, whose mental constitution is such that they never can follow out the train of reasoning, which establishes the truth of a certain famous proposition in Euclid. But we never heard of any one writing a pamphlet against the *pons asinorum.* Now, the famous doctrine of the regulation of the paper currency by the price of bullion is demonstrably true, and it is as vain to write pamphlets against it as against Euclid, B. I. prop. 5. When, therefore, a modern author says,* "the fundamental error of Mr. Huskisson, and the Bullion Committee, on the subject, consisted in the principles which they laid down as axioms, that the measure of the depreciation of the currency was to be found in the difference between the market and the mint price of gold;" this sentence is as wise as if one were to say, "the fundamental error of Cocker, and subsequent writers on arithmetic, is the principle which they adopt as an axiom that twenty-one is equal to twenty-one;" and when he says a little further on, "for as bank notes never sank in value compared with specie, whatever party spirit may have affirmed to the contrary," he makes a statement which there is overwhelming evidence to prove to be untrue.

* Alison, Hist. of Europe, 7th Edition, Vol. XIV. p. 70.

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Table shewing the chief variations in the market price of gold bullion from 1790 *to* 1819, *and the true value of the Bank of England* £1 *note during the Restriction.*

	Market price of Gold Bullion.	Real Value of the Bank Note.
	£ s. d.	£ s. d.
January, 1790 to August 25, 1797	3 17 6	
September 1, 1797 to October 19, 1798	3 17 10½	1 0 0
October 26, 1798 to September 13, 1799	3 17 9	1 0 0
September 20, 1799 to April 6, 1804.	No quotation.	
April 13, 1804 to October 15, 1805	4 0 0	0 19 6
October 22, 1805 to October 2, 1810	No quotation.	
October 9, 1810	4 5 0	0 18 4·2
February 12, 1811	4 12 0	0 16 11·4
March 26, 1811	4 16 0	0 16 3
October 25, 1811	4 18 0	0 15 11
October 2, 1812	5 7 0	0 14 5
January 22, 1813	5 4 0	0 15
August 6, 1813	5 10 0	0 14 2
February, 1814	5 8 0	0 14 4·2
April 12, 1814	5 5 0	0 14 9
May 31, 1814	5 3 0	0 15 1·7
June 7, 1814	5 0 0	0 15 7·2
June 28, 1814	4 10 0	0 17 4
September 20, 1814	4 6 0	0 18 1·6
November 15, 1814	4 8 0	0 17 8·7
April 4, 1815	5 7 0	0 14 5
June 9, 1815	5 5 0	0 14 10
June 30, 1815	5 0 0	0 15 7 2
July 7, 1815	4 14 0	0 16 7·2
August 4, 1815	4 10 0	0 17 4
September 15, 1815	4 9 0	0 17 6·3
October 13, 1815	4 3 0	0 18 9·5
January 2, 1816	4 2 0	0 19 0·3
April 9, 1816	4 1 0	0 19 3·1
April 23, 1816	4 0 0	0 19 6
July 9, 1816	3 19 0	0 19 8·7
October 8, 1816 to April 4, 1817	3 18 6	0 19 10·2
April 18, 1817	3 19 0	0 19 8·7
July 18, 1817	4 0 0	0 19 6
January 23, 1818	4 1 0	0 19 3·1
February 13, 1818	4 2 6	0 18 11
October 6, 1818	4 2 0	0 19 0·3
January 22, 1819	4 3 0	0 18 9·5

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CHAPTER X.

FROM THE ACT FOR THE RESUMPTION OF CASH PAYMENTS IN 1819 TO THE BANK ACT OF 1844.

GREAT FALL IN THE PRICES OF AGRICULTURAL PRODUCE IN 1822—RISE OF SPECULATION IN 1824—GREAT MONETARY CRISIS OF 1825—ADOPTION BY THE BANK OF THE PRINCIPLES OF THE BULLION REPORT IN 1827—RENEWAL OF THE CHARTER IN 1833—COMMERCIAL CRISIS IN 1837—MONETARY CRISIS IN 1839—TERMINATION OF THE CHARTER IN 1844.

1. The great Act for the preservation of the national good faith, the restoration of the measure of value, was accomplished amidst universal applause; but, unfortunately, it had no sooner become law than an unusually severe and long continued disturbance in the ordinary proportions of supply and demand in a great variety of productions took place. The violent fluctuations in prices which necessarily followed this great derangement, caused much public distress, and afforded an opportunity for the antagonists of the Act of 1819, to acquire such strength as to induce the government to tamper with the Act, before it came into full effect.

2. The utter prostration of all the great producing interests of the country in 1815-6-7 had caused such severe distress as to diminish the consuming powers

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of the people, to an enormous extent. The importations of the great articles of consumption in 1816, were in most cases not half what they had been in 1814.* In 1817, when the general prosperity was reviving, the shortness of the supply caused a very general and rapid rise in the prices of all commodities. The inevitable consequence followed, speculation began to revive again, and was much fostered in 1818, by an expected dearth of provisions. A long continued drought from May to September, was supposed to have destroyed the greater part of the crops, and as imported produce was unusually low, the prices of all sorts of farming produce rose to an extravagant height. Enormous importations of wheat, added to the home crop, which turned out considerably better than was expected, caused rather a reduction in the price of that, but all other sorts of farming produce mounted up to a great height, barley being at 63s. 6d., oats at 35s., beans at 76s., and peas at 70s., in December, 1818. The high prices thus held out in this country, caused importations on a scale of enormous magnitude,† at the close of 1818. After deducting the quantities re-exported, the imports of colonial and foreign produce were more than double what they were in 1816. Mr. Tooke well remarks‡ that before any great turn in the prices of commodities, there is usually a pause, of more or less duration, before it finally declares itself, like the slack water at the turn of the tide. There is a period during which sales are difficult or impracticable, when the prices are at a maximum, the buyer refuses to submit to them; and when they are at a minimum, the seller refuses to submit to them. A struggle of this nature pre-

* Tooke's Hist. of Prices. Vol. II. p. 25.

† Ibid. p. 59. ‡ Ibid. p. 62.

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vailed through the autumn and winter of 1818-9, and just as the Act for the restoration of cash payments passed, the fall in prices was decidedly in progress.*

3. The usual consequences followed these extravagant importations. Importers trusting to the prices of 1817, had given orders to the growers based upon these prices, and when the crops came to be brought to market, the price had given way. Failures, accordingly, were numerous in 1819, both in England and in America, the necessary consequence of a transition from high prices caused by scarcity, to low prices arising from excess of supply. Towards the autumn of that year commercial credit had revived. The great importations of wheat in 1818, somewhat reduced the price in 1819, but it stood at 75s. in August, and the average for the whole year was 72s. This price continued with a few fluctuations till August 1820, and at that time wheat was still at 72s. A decided and unanswerable proof that the discussions in Parliament and the Act for the resumption of cash payments, had no effect at all on the price of corn. Although the Bank was permitted to pay its notes in gold at the rate of £4 1s. per ounce, yet they were actually at par, as the market price of gold fell to £3 17s. 10½d. in August 1819,† and continued at that rate till June 1822, when it fell to £3 17s. 6d. And, in fact, it must be remembered that for a great part of 1816-7 the note had been within a few pence of par, and had not varied more than about 5 per cent. from par since that time.

* The whole of Mr. Tooke's observations on this great crisis are perfectly invaluable, and must be read at length by every one who wishes to form a fair judgment on the subject. Vol. II. p. 60—116.

† App. to Report of Committee on Bank of England Charter, 1832, p. 98.

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4. The spring of 1820 had been unpropitious, and vegetation backward, until the 18th of June, when some warm and very brilliant weather occurred just at the critical period of the blooming of the wheat. In July some wet weather excited fears for the crop, and the prices advanced to 72s., but the weather became very fine in the beginning of August, and thenceforth continued most propitious during the ripening and gathering of the harvest. The result was a harvest of most extraordinary abundance, and of excellent quality. And even its unprecedented exuberance did not become fully known till two or three years afterwards, when it was not yet exhausted. The best authorities calculated that the quantity of the crop of 1820 was one-third above the average. In July 1821, wheat had fallen to 51s. from 72s. in August 1819. May, June, and July 1821, were cold and wet, and the harvest very late; wheat rose to 62s. in September, but the quantity produced was extremely large, and the quality very bad. In consequence of the enormous unexhausted stock of 1820, wheat fell to 50s. at the end of 1821, and to 42s. in August 1822.* The harvest of 1822 was remarkably good both in quantity and quality, and was got in early, long before the preceding crops had been consumed. In addition to this, the importations from Ireland were on an unprecedented scale. In 1817 corn was obliged to be exported to Ireland, in 1820 and 1821 Ireland exported to England upwards of 4,000,000 quarters of grain of all sorts. The natural and inevitable consequence of this was an immense and ruinous fall in the prices of all agricultural produce. Wheat fell to 38s. at the end of 1822.

5. The accumulation of treasure became so rapid

* Tooke's Hist. of Prices, Vol. II. p. 83.

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in the vaults of the Bank in 1820, that early in 1821 the directors felt themselves in a position to resume cash payments, and an Act was passed to permit them to do so on the 1st May 1821, instead of in 1823. By this time the government had repaid £10,000,000 of the debt it owed to the Bank, which all the witnesses agreed was a necessary preliminary to enable the directors to contract their own issues. The Statute 1821, c. 26, enacted that the Bank might resume payments in gold coin on the 1st May 1821. That persons offered to be paid in coin should not have the right to demand ingots. That if the Bank did not offer to pay in coin, the right to demand ingots should continue. The last impediments to the export of bullion were swept away. The Bank was bound to exchange their larger notes for any one who demanded it, for £1 notes or gold coin, but they had the option of payment in gold or notes.

6. The extravagant height to which the combined effects of an unusual and long-continued scarcity and the greatly depreciated currency, in which payments were made in 1811 and 1812, had produced the most extravagant speculations in farming. Barren wastes were reclaimed at an enormous expense, which never could have been repaid, except by maintaining corn at famine prices. Rents and debts had advanced in a similar proportion, and all classes of agriculturists, farmers and landlords, had adjusted their expenditure according to the new scale of prices which they expected would endure. Family settlements and encumbrances were calculated on the same basis. Immediately after the peace, the great fall in the price of all sorts of agricultural produce, both from greater abundance and the destruction of the rotten country paper currency, threatened all persons connected with the "landed interest" with general ruin, and after a considerable strug-

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gle the corn bill of 1815 was passed, the intended and expected effect of which was to prevent wheat ever falling below 80s. a quarter. The "landed interest" calculated that with the "cost of production," of which they considered "rent" as a necessary element, wheat could not be grown with a profit at less than 80s. a quarter, and the intention of that Act was to secure that price to agriculturists. Buoyed up with delusive hopes and firmly believing that the Act had for ever nailed up wheat to 80s. a quarter, the farmers received a fresh stimulus to speculation, and vast sums were laid out in further extending the cultivation of barren wastes. However, the circumstances we have already detailed disappointed all these calculations, and wheat stood at 38s. at the end of 1822 in defiance of the Act which said it ought to be at 80s.

7. The advocates of a national bankruptcy had been in such a small minority in 1819, that they scarcely uttered a word in Parliament, much less attempted a division. When the distress caused by the fall in prices began to pinch some classes in the country, they began to gather strength again, and commenced an attack on the Currency law on April 9, 1821. This attack proved a complete failure, being rejected by a majority of 141 to 27.* As prices continued to fall during that year, the distress continued to increase, and early in 1822, a Committee of the House of Commons was appointed to report upon the subject.† They presented their report on the 1st of April; but it did not contain a word imputing the low state of prices to anything connected with the currency. They attributed it to the unprecedented abundance of agricultural produce, and proposed plans for

* Hansard, Parl. Deb., New Series, Vol. V., p. 147.

† Ibid. Vol. VI., p. 1406.

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affording the farmers and others relief by temporary advances of Exchequer bills, until the glut in the market had diminished. They recommended that the limit of 80s. should be reduced to 70s., as 80s. represented a higher value at that time than in 1815. In the debate that followed, the first symptoms were manifested of the determination to make an onslaught on the Currency Act of 1819. But Lord Londonderry ridiculed the idea that the currency had anything to do with the question, and said members had only wasted precious time in bringing it forward. But he declared that he entered his most solemn protest against the purpose of these members to induce Parliament to commit the most flagrant deviation from sound policy and common honesty—a breach of faith towards the public creditor. Could a British House of Commons sanction such a measure, it would relieve no class of the community; but it would overwhelm all classes with ruin. Were it possible for them to be dishonest and base enough to listen to a project of national bankruptcy, the result must be most calamitous. If a Parliament could be found so degenerate, and a people so destitute of honour and common honesty, as not to start at the idea of such an abandonment of principle, the most sordid calculation would forbid the adoption of such a measure.

8. The £1 note issues of the country bankers in England had been suppressed by Statute 1777, c. 30; but in 1797, they were again permitted, and by various Acts of Parliament, this permission was continued till two years after the resumption of cash payments by the Bank of England. By the operation of these several Acts, they must have been withdrawn in 1825. The distress, however, which was attributed by so numerous and powerful a party to the contraction of the currency, was

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employed to induce ministers to relax this restriction, and country bankers were permitted to continue their £1 notes till the expiry of the Bank Charter in 1833. (Statute 1822, c. 70.) In order to improve the quality of the country bank notes, the Government attempted to enter into negotiations with the Bank of England to permit joint stock banks to be formed at a distance of sixty-five miles from London.* The Government was satisfied that if joint stock banks on the Scotch system could be formed, it would add much to the stability of public credit. Lord Londonderry pronounced a warm eulogium upon the Scotch banks, and said that it was the wish of the ministry that a similar system should be introduced into England. The bribe to the Bank of England to consent to this arrangement was an extension of their Charter for ten years. But the negotiation failed.

9. The attacks upon the Act of 1819, thrown out in the discussion of the Agricultural Distress Report, were merely preparatory to a formal onslaught on the Act itself. On the 11th of June, 1822, Mr. Western moved for a committee to enquire into the effect of the Act upon the general interests of the empire. The burden of his speech was that all the distress the country was then suffering was due to the Act of 1819, and to that only; which he said had made a violent contraction in our currency at once. This assertion, which was the main pillar of his argument, is demolished by the simple fact, that the great contraction of the currency and the restoration of the note to par took place in 1816. He moreover assumed that the currency had been depreciated ever since the Restriction Act in 1797. Mr. Hus-

* Parl. Debs., N. S., Vol. VIII., p. 161.

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kisson immediately followed in a speech demolishing the whole of Mr. Western's sophistries, one by one, and drawing a close parallel between the state of the currency in 1696, and at that time; and he concluded by moving the same resolution that Mr. Montague had done in 1696, "That this House will not alter the standard of gold or silver in fineness, weight, or denomination." After a debate of two nights, in which several members who supported the motion disavowed all intention of tampering with the standard, Mr. Western's motion was rejected by a majority of 194 to 30, and Mr. Huskisson's amendment agreed to.

10. It was strongly alleged by one party, that they were compelled to pay, in the restored currency, the debts they had contracted in a depreciated one, and they called for what they were pleased to term an "equitable adjustment of contracts." But the argument was futile, as they knew, at the time they made their contracts, that Parliament was pledged to return to cash payments within a very short period after the termination of the war. Moreover, they totally left out of consideration, that they had been able to discharge an immense amount of mortgages, burdens, &c., in a depreciated currency, which had been contracted in a good currency. All the mortgages and annuities on landed property which were contracted before the great depreciation of the currency, were paid for some years in a currency 25 per cent. less valuable than at the time of the contract. But while these debtors clamoured so loudly for an "equitable adjustment" of contracts grievous to themselves, they never uttered a whisper indicative of their wish to have an "equitable adjustment" of those contracts where the change was favourable to themselves. The only instance recorded of any person making an "equitable adjustment" against

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himself, and paying his creditors according to the true value of the Bank note, was Lord King, who incurred so much resentment for his letter in 1811. It is quite evident that such a one-sided "equitable adjustment" as was proposed by this party was nothing else but robbery. Under the double stimulus of famine prices and a depreciated currency, the rents of land had tripled since the beginning of the war, so that properties which were mortgaged before it, might have been comparatively unencumbered at its close. But the unfortunate mortgagees and annuitants were paid in a fixed amount of depreciated currency, so that when prices rose to meet the depreciation, they were clearly mulcted. But they had no powerful party to advocate an "equitable adjustment" in their favour; and it is quite clear that no "equitable adjustment" could take place, unless all these payments were included in it.

11. There was one perfectly satisfactory argument to shew that the low prices of that year had nothing to do with the Act of 1819, namely, that the prices of all sorts of agricultural produce were equally depressed all over the continent of Europe from the same cause. The fluctuations, indeed, on the continent were much more violent than even in England. Wheat, in France, which had risen higher, fell lower. At Vienna, wheat which was at 114s. in March, 1817, fell in September, 1819, to 19s. 6d.; at Munich, wheat fell from 151s. in September, 1817, to 24s. 5d. in September, 1820. The same phenomena were observed in Italy. A similar fall, but not to so great an extent, took place at Lisbon. What could the Act of 1819 have to do with these places? The speech from the throne, in France, very properly attributed the low prices to the enormous abundance of production.

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12. But not only is it an absolutely certain historical fact, that the Act of 1819 had not the remotest connection with the low prices of 1822, but it is proved by most overwhelming evidence that it caused no *contraction of the currency at all.* Mr. Turner, a director of the Bank, states,* "With regard to the effect of Mr. Peel's bill on the Bank of England, I can state, from having been in the direction during the last two years, that it has been altogether a dead letter. It has neither accelerated nor retarded the return to cash payments." And Mr. Tooke shews most conclusively that the amount of the currency, so far as it consisted of Bank of England notes and coin, was much larger in 1822 than it had been in 1819. That this act caused any CONTRACTION of the currency is therefore a statement most contrary to the truth. Its only effect was, what parliament had over and over again solemnly pledged itself to do, to fix a time for the return to cash payments, and such a return to payments in cash would, by its own natural operation, prevent the extravagant issues which the Bank had made during the restriction, which depreciated the note 30 per cent., and robbed every creditor of one-third part of his property. The act of 1819 merely restored the Bank to its condition before 1797, and it became subject to the same unerring laws of nature as its directors had confessed it felt before the restriction.

13. There is much invidiousness in endeavouring to fasten the responsibility of this act upon Sir Robert Peel, as if he had had any either of the peculiar merit or blame of passing it through parliament. The legislature was solemnly pledged to return to cash payments as soon as the war was over, while he was yet a schoolboy in the

* Quoted by Mr. Tooke. Hist. of Prices, Vol. II. p. 99.

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junior forms of Harrow. There does not appear to have been any speaker fantastic enough to propose that the Bank should never return to cash payments. The Bank itself, of its own accord, attempted to resume payments in cash in 1817, and would have succeeded in doing so if it had not so perversely rejected the principles of the Bullion Report, and if it had not been owing to circumstances which disturbed its management in 1818. Cash payments would have been resumed while Mr. Peel was still in that unconverted state in which he voted against Mr. Horner's resolutions in 1811. So far was he from converting parliament that he was himself one of the latest converts, and the ministry conferred great honour upon him in allowing him while yet so young to take such a prominent part, and be the mouth-piece of the unanimous determination of the legislature.

14. By the beginning of 1823 the very inferior stock of 1821 had been chiefly consumed, and the crop of 1822 being of far superior quality, prices began slowly to rise, and the spring of 1823 proving very backward, prices rose rapidly, so that in June wheat stood at 62s. 5d. These prices, however, tempted the farmers to produce their long reserved stores, and an unusual quantity having thus been brought to market, wheat fell in October to 46s. 5d., but the crop turning out worse than was expected, prices rose a little at the end of the year, but they were still 37 per cent. below the "remunerative" 80s., which parliament had held out to farmers, as the point which should be insured to them. It is a favourite theory with many persons that the rise of prices in 1823 was owing to the extension of country bank issues, in consequence of the act of 1822 prolonging the terms of their existence. Such a supposition, however, is very decisively negatived by the evidence of Mr. Burgess, secretary to the

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committee of country bankers, before the committee of 1832 (Report, p. 414). He presented returns from 122 country banks, forming a fair evidence of the whole. Assuming that the issues of each bank were 100 in 1818, the issues of the whole were 12,200 in that year, and the following table exhibits their variations up to 1825.

	£.		Difference.		£.	s.	d.	
1818	12,200	...				—		—
1819	11,991	...	209	being	1	15	0	per cent. decrease from 1818.
1820	11,487	...	709	,,	5	16	10½	,,
1821	11,352	...	848	,,	6	19	0	,,
1822	10,778	...	1,422	,,	11	13	1¼	,,
1823	10,748	...	1,452	,,	11	18	0¼	,,
1824	11,640	...	560	,,	4	11	9	,,
1825	12,478	...	278	,,	2	5	6⅝	increase.

Mr. Tooke also shows that during 1823, while the price of wheat was rising, the prices of most other commodities were falling, from which circumstances he very conclusively pronounces that the idea that the variations of the currency had anything to do with prices in those years to be utterly unfounded.*

15. The continued depression of prices of agricultural produce so much below what had been expected, created, no doubt, much distress among those persons who were hampered with obligations they had entered into upon the scale of 1811 and 1812, and several petitions

* If anything were wanting to shew the utter fallacy of the idea that the contraction of the currency has anything to do with the low prices of 1822, we might refer to the present price of wheat. There are many clamours of a contracted currency at present, and yet the price of wheat is nearly 90s. per quarter; in the Edinburgh market it was sold at 104s. a few weeks ago. (December, 1855).

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were presented to both Houses of parliament complaining of it. Mr. Western, not satisfied with the great rebuff he had met with in 1822, when the distress was far more severe, again endeavoured to induce parliament to disturb the settlement of 1819. He introduced his motion on the 11th June, 1823.* It may be as well to take notice of some of the leading fallacies he brought forward, as they are too often repeated even at the present day. After saying that great variations had taken place in the value of the currency during the preceding 30 years, which was unquestionable, he said,—

"It will be admitted that a diminution of value followed the suspension of cash payments by the Bank in 1797; that such diminutions continued and increased during the latter years of the war, *and up to the time of Peel's bill;* and that Peel's bill, whilst it restored the old metallic currency, gave to it the value which it possessed prior to its suspension. The injustice attendant upon an alteration of a currency in any way cannot be questioned a moment. The injury that was done to creditors by the act of 1797 (the origin of all our difficulties in regard to currency) is not to be doubted, but my position is, that after a period of twenty-two years the resumption of the old standard could by no means be an act of justice or retribution. A new currency upon a new standard necessarily ceases to be new in any sense of the word at some period, and an old one revived again is, to all intents and purposes, new and productive of all the same effects. Is twenty-two years such a period as shall suffice so to establish a standard, as to make recurrence to the antecedent as mischievous as the adoption of a new one? This is the important question; and I answer, most distinctly, yes; and that justice required us to establish and perpetuate that measure of value which had been so long current, as near as the same could be ascertained."

16. The Marquis of Titchfield supported Mr. Wes-

* Parl. Debs., N. S., Vol. IX. p. 833.

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tern's motion, but made some caustic remarks upon Mr. Vansittart, and his famous resolutions of 1811, saying that he might possibly be ridiculed for advancing axioms and evident truths;

"This latter danger, however, he should make bold to defy, sheltering himself under the fact, that notwithstanding all the discussion this subject had undergone, it might still be heard any day in society, from persons otherwise intelligent, that in their opinion, to talk of the depreciation of the currency must be nonsense, for that they were unable to comprehend how a pound note at one time, could differ from a pound note at another—that a pound note must be a pound note always—that it was impossible that the same piece of paper, with the same characters marked upon it, should be more valuable at one time than at another; and when, above all, the famous resolution of 1811 was recollected, he thought it would be perfectly excusable for him, even in that assembly, said to be so enlightened, to set out with the mathematical axiom that 'a part is less than the whole'—an axiom which now that the late Chancellor of the Exchequer was no longer among them, he apprehended no one would be found hardy enough to dispute. In mentioning the name of that extraordinary person, he much lamented his inability to do justice to the merits of so great a master of reasoning and eloquence, who so confounded the philosophers of 1811, by unfolding to his admiring audience, that the old favorite axiom of Euclid was nothing but a popular delusion, that in reality a part might easily be equal to the whole; and that therefore there was no reason for doubting that the pound note which required the assistance of eight shillings to procure a guinea, was equal to the pound note which required the assistance of but a single shilling of precisely the same value with those of which eight had become necessary. That great man, for his singular merits, he supposed, or, perhaps, for their unworthiness of him, had been taken from them, and bestowed upon another assembly, which not having had the same practice in finance, it was to be hoped he would long continue to enlighten. He could not, however, be said to have finished his course prematurely, for twelve years before he had obtained an imperishable name, by

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placing triumphantly on the journals of the House of Commons, that astonishing resolution which had deprived Euclid of his ancient and long-acknowledged reputation. He was most anxious to disclaim all personal ill-will towards the late Chancellor of Exchequer. Indeed, it was impossible he should be under any such impulse, but he would not shrink from confessing that in a political point of view he could never hear his name pronounced, much less pronounce it himself, without a feeling something like bitter animosity, because he considered that minister as the author in great part of the calamities in which the landed interest of the country was involved. He believed that few parts of the financial administration of that period were exempt from much and well-merited censure, but all the other measures were trifling in the scale of mischief, compared with that fatal resolution which ministerial influence unfortunately carried in the House of Commons, the effects of which were now helplessly deplored, and which would so long survive the name as well as the administration of those with whom it originated. The mischief of that resolution might be described with perfect justice in a very few words. Its effect was to blind the public to their real situation; thereby both promoting the evil, and rendering the sufferers less capable of guarding against it. It assured the public in the midst of a great and rapidly increasing depreciation, that no depreciation existed. The Bank, therefore, went on fearlessly adding to its issues, which, of course, increased the evil by increasing the cause of it, and the landholder went on with the cultivation of poor soils, undertaking expensive improvements, fondly imagining that the additional Bank notes he was receiving were additional riches. The landholder, never suspecting that his dealings were virtually in a lower coin, borrowed fearlessly sums vastly larger than he could have dreamed of, that would have staggered his imagination if he had had a suspicion that wheat could ever be at 39s. a quarter, for, while he was receiving 140s., he took for granted he might safely calculate upon hard times not bringing him lower, perhaps, than 70s. or 80s.; and thus the prudent man, even, was induced to borrow what it was clear he had now no chance of paying without ruin. That ever memorable House of Commons told him what they knew to be false, or ought to have known, that the pound note was of full value, when it was in reality depreciated 30 per cent. He borrowed

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pound notes worth 13s. and he was called upon to re-pay pound notes worth 20s."

17. After developing these ideas still further, he said that in currency *quantity* was everything;* for if forty millions of notes were in circulation at one time, and eighty millions at another, while the transactions of the country remained the same, then two notes would be required to do the duty that one had formerly done; and therefore the currency would become depreciated; but if transactions doubled, then the same quantity of currency would represent the same amount of transactions, and its value would not be altered. He said,—

"Economy of money was by contrivances to spare the uses of it, according to the description of his right honourable friend, by substitutions for the precious metals, in the shape of voluntary credit. Every new contrivance of this kind—and every one improved—had that tendency. *When it was considered to how great an extent these contrivances had been practised in the various modes of* VERBAL, BOOK, AND CIRCULATING CREDITS, IT WAS EASY TO SEE THAT THE COUNTRY HAD RECEIVED A GREAT ADDITION TO ITS CURRENCY. THIS ADDITION TO THE CURRENCY WOULD, OF COURSE, HAVE THE SAME EFFECT AS IF GOLD HAD BEEN INCREASED FROM THE MINES."

Lord Titchfield then pointed out how an excessive quantity of paper caused a depreciation of it, which was exactly the same thing as a depreciation of the coinage from a deficiency of weight; but he afterwards fell into the extraordinary error of saying, "The Bank notes were depreciated, and became, therefore, in the situation of clipped or debased guineas, which state of the circulation prevailed from 1797 to 1819."

18. This allegation of the great depreciation of the paper currency during the whole interval from 1797 to

* Parl. Debs. N. S., Vol. XIX. p. 833.

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1819 is the only one that can afford the smallest ground for attack upon the Act of 1819; but we have shown by such overwhelming evidence that such an idea was the greatest delusion that could be conceived. The Bank note sustained no sensible depreciation for several years after the Restriction Act, and it was not till the great mercantile speculations of 1808-9, that it became seriously so. It did not continue longer than five or six years, and rose so nearly to par in 1816-17, that its depreciation was insensible. If, therefore, Parliament, in 1819, had gone back to the depreciated standard of 1813-14, it would have been the most unjustifiable robbery recorded in history. It would have been infinitely worse than the bankruptcy of any continental nation, such as Austria, Russia, or France, because, when they declared themselves bankrupt, their paper was at a hopeless and irredeemable discount, and they had not the remotest prospect of ever bringing it back to par. Their conduct, therefore, was the result of sheer necessity; they were driven to bankruptcy only when they were irretrievably insolvent, but they did not deliberately cheat their creditors *after* their currency was restored to par. The motion was rejected by a majority of 96 to 27, and was the last attempt to tamper with the measure of value.

19. The harvest of 1823 was deficient, both in quality and quantity, and prices rose considerably in the beginning of 1824, old wheat being then at 78s., later in the year, however, they declined, but the harvest of 1824 being also inferior, they rallied again. The Bank had for some years been accumulating treasure to meet the anticipated deficiency of the country issues expected to follow the suppression of the £1 notes. When the unhappy change in the policy of the Government took place, this great amount of bullion was rendered comparatively

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useless, and the country banks began to extend their issues in 1824, and in 1825 they were beyond what they were in 1818. In January, 1824, the bullion in the Bank amounted to £14,200,000. During the preceding year, an adjustment of rents to meet the altered state of prices had taken place, and the old stocks having been gradually worked off, the energy of the people began to revive. The enormous amount of cash in the Bank, for which there was no immediate use, enabled the Government to carry through a great financial operation, the reduction of the interest upon nearly a quarter of the national debt. The Navy 5 per cents. were reduced to 4 per cent., and the 4 per cent. stock to 3½. This vast operation had a very considerable influence in curtailing the incomes of many persons who could ill afford it, to a very inconvenient extent, and prepared them to look out for more profitable investments for their money. Notwithstanding the unhappy and severe distress to the agricultural portion of the community, Mr. Tooke says that the trading and manufacturing interests had never before been in a more regular, sound, and satisfactory state, than in the interval from 1821 to 1824. At the close of the session of 1823, the King congratulated Parliament on the flourishing condition of all branches of our commerce and manufactures, and the gradual abatement of agricultural distress.

20. At the close of 1824 the seeds of the disasters which ensued in the end of 1825 were sown. The royal speech opened parliament with the same strain of congratulation as had closed the preceding session, and the same congratulations were used at the close of the session of 1824. Towards the end of that year it became visible that in some of the leading articles of consumption the supply was falling short of the demand, which gave rise to a spirit of speculation, and, as in all similar cases, a

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few early purchases, which were successful, induced extensive imitation;* and at the end of 1824, and beginning of 1825, this had amounted to positive infection, numbers of persons being induced to go out of their own line of business to speculate in articles with which they had no concern whatever, but induced by representations of their brokers to do so in the hopes of realizing great and immediate gains.

21. Just at this period occurred one of those events which have so frequently lured the commercial world to their destruction. The long contest between Spain and her South American colonies had now finally terminated in favour of the colonies. We have already noticed the great commercial catastrophe brought about in 1810, by the extravagant speculations on the opening of the Brazils to British trade. Precisely the same cause occurred in 1824. The recognition of the independence of the South American States and Mexico opened out a boundless field for speculation, and the consumption of British manufactures, and this spirit of speculation was aggravated to the utmost by the visions of countless wealth which was to be extracted from the gold and silver producing countries, and immense schemes were formed for working the mines with British capital. However, the long struggle for independence had inspired the British people with much sympathy for the juvenile republics, and when they wanted to borrow money to support their public credit, the British were only too eager to lend it. It is alleged that £150,000,000 of British capital was sunk in different ways in Mexico and South America.

22. Although the symptoms of a coming mercantile catastrophe were plainly evident in the beginning of

* Tooke's Hist. of Prices, Vol. II. p. 143.

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1825, the speech put into the king's mouth declared the utmost gratification at the continuance and the progressive increase of the public prosperity. "There never was a period," it said, "in the history of this country, when all the great interests of the nation were at the same time in so thriving a condition, or when a feeling of content and satisfaction was more widely diffused through all classes of the British people." The speech of Lord Dudley and Ward was exactly in the same strain. After contrasting the sufferings the nation had gone through, during the last 30 years, he said it was his good fortune to ask their lordships to carry to the foot of the throne their unmixed and he hoped their unanimous congratulations, upon a state of prosperity, such as he believed was unequalled in this country, and had never been surpassed in any age or nation. And yet, though the whole debate was in this strain, no sooner was it ended, than the Lord Chancellor called the attention of the house to the dangerous extent to which the mania for joint stock companies had gone, and said he would move for leave to bring in a bill to restrain the system. Within seven weeks after that Lord Lauderdale called the attention of the house to the "fury for joint stock companies which had taken possession of the people," and said that the schemes already subscribed for amounted to £200,000,000.

23. The following extract from the Annual Register of 1824 contains a sufficient description of the rising of the Joint Stock Company mania. After stating that the "mines of Mexico" was a phrase which opened visions of boundless wealth to the imagination, and how the mania spread from foreign enterprises to home ones, it says—

"In all these speculations, only a small instalment, seldom ex-

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ceeding 5 per cent., was paid at first, so that a very moderate rise in the price of the shares produced a large profit on the sum actually invested. If, for instance, shares of £100, on which £5 had been paid, rose to a premium of £40, this yielded on every share a profit equal to eight times the amount of the money which had been paid. This possibility of enormous profit, by risking so small a sum, was a bait too tempting to be resisted. All the gambling propensities of human nature were constantly solicited into action, and crowds of individuals of every description—the credulous and the suspicious—the crafty and the bold—the raw and the experienced—the intelligent and the ignorant—princes, nobles, politicians, placemen, patriots, lawyers, physicians, divines, philosophers, poets, intermingled with women of all ranks and degrees—spinsters, wives, and widows hastened to venture some portion of their property in schemes of which scarcely anything was known except the name."

As a specimen of the madness of the speculations, we may quote the prices of mining shares. The Anglo-Mexican, on which £10 was paid, were at £43 on December 10th, 1824, on the 11th January, 1825, they were at £150. The Real del Monte, with £70 paid, were at £550 in December, and at £1,350 in January, and others in similar proportions. The prices of most other commodities doubled and tripled.

24. Now, what was the conduct of the Bank of England during this period? The bullion which stood above £14,000,000 in January, 1824, was reduced to £11,600,000, in October, 1824. The exchange on Paris had been falling ever since the close of 1823. The last time it was above par was in June, and since then the fall had been continuous. The decrease in bullion had been steady, uniform, and rapid ever since March. Now, when it was known that immense sums were leaving the country, and the exchange falling lower, what did the Bank do? It *increased* its issues. During the month of Octo-

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ber, 1824, they were increased £2,300,000.* When every consideration of common sense and prudence demanded a rapid *contraction*, when the speculative fever was plainly declared, instead of doing what they could to check it, they added fuel to the flames. But the directors seemed determined to set all the principles of the Bullion Report at defiance. And the drain upon them proceeded with increased severity. In April, 1825, the bullion was diminished by upwards of £4,000,000, and their issues were £3,600,000 higher when they had only £6,650,000 of bullion than when they had £14,000,000.

25. The speculative fever was at its height in the first four months of 1825, when it had spent its force and came to an end in the natural course of things. Vast numbers of persons who had embarked in these wild schemes, with the hope of selling out of them before the inevitable crash came, were now called upon for their subscriptions. Vast quantities of capital having been already absorbed, had the inevitable effect of raising the rate of interest. Successive calls compelled the weaker holder to realize, and while the calls for ready-money were immediate and pressing, the prospect of returns was distant and uncertain.† Accordingly, after May and June, the decline was rapid. The South American loans and the Mexican mining schemes proved almost universally total losses. In the meantime, that *slack water* which, Mr. Tooke observes, always precedes a great turn in the tide of prices, took place. The increase of commodities which speculation had caused, could no longer be kept from being realised, prices fell as rapidly as they had risen. The obligations of the speculators now

* Bank of England Charter Report, 1832. App. p. 27.

† Tooke's Hist. of Prices. Vol. II. p. 159.

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became due, and the sale of the commodities had to be forced to meet them. Universal discredit now succeeded, goods became unsaleable, so that stocks which are usually held in anticipation of demand, were wholly unavailable to meet the pecuniary engagements of the holders. Merchants who had accepted bills for only half the value of the goods consigned to them, were unable to realize even that half, or even obtain advances, on security of the bills of lading, and even the advances already made were peremptorily called in. The usury laws which limited interest to 5 per cent. greatly aggravated the distress; nobody would lend money at 5 per cent. when its real value was so much greater; hence, numbers who would gladly have paid 8 or 10 per cent. interest, were obliged to sell goods at a difference of 30 per cent. for cash, compared with the price for time.

26. The bankers in the country had followed exactly in the steps of the Bank of England. While the fever was raging they had increased their issues and liabilities, by speculative advances on commodities. The persons to whom these advances had been made, had no means of repaying them, but the "promises to pay" the bankers had lent them still remained in circulation, and must be met. The bankers foresaw the coming storm, and endeavoured to provide funds to meet it. The Bank of England itself had its eyes opened to the suicidal career it was following in May, and then endeavoured violently to contract its issues. This sudden change of policy only aggravated the general feeling of discredit. During the autumn every thing portended the approach of the impending catastrophe. The following table shews the progressive decrease in the bullion in the Bank during 1824 and 1825.*

* Bank of England Charter Report. 1832. App. p. 27.

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1824.		1825.	
Jan. 31	£13,527,850	Jan. 29	£9,490,420
Feb. 28.	13,800,390	Feb. 26	8,857,730
March 27	13,871,280	March 26	8,152,340
April 24	13,405,550	April 30	6,659,780
May 29	12,887,840	May 28	6,131,300
June 26	12,809,140	June 25	5,482,040
July 31	11,814,720	July 30	4,174,830
Aug. 28	11,763,550	Aug. 27	3,626,570
Sept. 25	11,811,500	Sept. 24	3,496,690
Oct. 30	11,433,430	Oct. 29	3,150,360
Nov. 27	11,323,760	Nov. 26	3,012,150
Dec. 24	10,721,190	Dec. 31.	1,260,890

27. The inevitable *contre coup* of the undue expansion of credit in the spring began to press heavily on the country banks in the autumn of 1825. It gradually became severer during the month of November. On the 29th November it was announced in the London papers that Sir William Elford's—a large bank at Plymouth—had failed, and that was immediately followed by the fall of Wentworth and Co., a great Yorkshire firm. By the 3d December, the panic had fairly set in, and the whole city was thrown into the most violent state of alarm and consternation. On that day (Saturday) some of the directors were informed that the house of Pole, Thornton and Co., one of the leading city Banking houses, was in difficulties, and at a hurried meeting held on the following day it was decided to place £300,000 at their disposal upon proper security. During that week the utmost attention was paid to the position of that house which fought it through the following week, though it was privately known to the governor that, if the storm did not abate, they must fall on the Monday morning. Instead of abating, however, it became more furious than ever on Monday ; and Pole and Co. stopped payment, and the

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ruin of forty country Banks which were connected with them was expected.

28. The fall of this great banking house was the signal for a general run upon all the London bankers, and three or four more gave way, and spread universal consternation among the country banks, sixty-three of which succumbed to the crisis, though a considerable number paid 20s. in the pound and eventually resumed business.

29. From Monday the 12th to Saturday the 17th December, was the height of the crisis in London. Mr. Richards, the Deputy Governor of the Bank at that time, said—

"On Monday morning the storm began, and till Saturday night it raged with an intensity that it is impossible for me to describe; on the Saturday night it had somewhat abated. The Bank had taken a firm and deliberate resolution to make common cause with the country, as far as their humble efforts would go, and on Saturday night it was my happiness, when I went up to the Cabinet reeling with fatigue, to be able just to call out to my Lord Liverpool, and to the members of His Majesty's Government then present, that all was well; that was, I believe, on the evening of Saturday the 17th December. Then in the following week things began to get a little more steady, and by the 24th, what with the £1 notes that had gone out and other things, people began to be satisfied, and then it was for the first time in a fortnight, that those who had been busied in that terrible scene could recollect that they had families who had some claim on their attention."*

30. As the crisis was evidently approaching at the end of November, the papers discussed the probable policy of the Bank, and it was generally anticipated that it would continue to contract its issues, and let the evil work its own cure by the fall of those houses which had been

* Report on Bank of England Charter, 1832, p. 401.

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imprudent in their speculations, and this was the course adopted by the Bank, and to which they adhered as matters grew worse, and they were supported in it by public opinion. On the day after Pole and Co. fell, another house of equal magnitude fell, Williams, Burgess and Co. The panic then became universal, and as the directors thought that they would certainly have to stop payment, they sounded the government as to a Restriction Act, but the government absolutely declined it, and it was resolved that the Bank should pay away its last sovereign. The mint was kept constantly at work day and night, but it could not supply coin with sufficient rapidity so that it kept continually diminishing. On the Saturday the coin in the bank vaults scarcely exceeded one million, but by a happy circumstance, when the Saturday evening came the tide receded, and the directors were able to assure the ministry that all danger was over.

31. The great pressure had produced the effect which necessarily results from such circumstances. The great increase in the value of money here, had turned the exchanges in favour of the country, the directors expected remittances from Paris, and they fortunately came sooner than was expected. On the Monday following the 19th, about £400,000 came from France, and the demands having sensibly abated, the supplies from the mint fully equalled the sums drawn out of the Bank,—or rather exceeded them.*

32. Mr. Huskisson said† afterwards in the House of Commons, that during forty-eight hours, (Monday and Tuesday, December 12 and 13) it was impossible to convert into money to any extent the best securities of the

* Report Bank of England Charter, p. 406.

† Hansard Parl. Debs. N.S. Vol. XIV. p. 230.

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government. Persons could not sell Exchequer bills nor Bank stock, nor East India stock, nor the public funds. Mr. Baring said that men would not part with their money on any terms, nor for any security. The extent to which the distress had reached was melancholy to the last degree. Persons of undoubted wealth and real capital were seen walking about the streets of London not knowing whether they should be able to meet their engagements for the next day. By this time, however, the exchanges had decidedly turned in favour of the country, and on the Wednesday the 14th, the Bank totally changed their policy, and discounted with the utmost profuseness. They made enormous advances on Exchequer bills, and securities of all sorts. Mr. Harman said :—*

"We lent it by every possible means, and in modes we had never adopted before; we took in stock as security, we purchased exchequer bills, we made advances on exchequer bills, we not only discounted outright, but we made advances on deposit of bills of exchange to an immense amount; in short, by every possible means consistent with the safety of the Bank, and we were not on some occasions over nice; seeing the dreadful state in which the public were, we rendered every assistance in our power."

This audacious policy was crowned with the most complete success, *the panic was stayed almost immediately.* On Friday evening, the 16th, the *Courier* said: "We are happy to think that the worst is over, though there are still great demands upon the Bank, particularly from the country." The same paper, on the next day, the 17th, said: "Although public confidence is on the return in the metropolis, and things are resuming their usual course, yet, as might be expected, this has not yet

* Report, Bank of England Charter, 1832, p. 154.

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communicated itself to the country." In fact, the London panic was completely allayed in this week by the profuse issue of Bank notes. Between the Wednesday the 14th, and the Saturday the 17th, the Bank issued upwards of £5,000,000 of notes!

33. The waves of discredit, however, were propagated through the country, and throughout the following week, the demand still continued great from the London bankers for their country correspondents. During the course of it, it came to the remembrance of some of the directors that there was a chest of their £1 notes, which had never been used. As soon as this was discovered, it occurred to them that they might be used to stay the panic in the country districts, and the discredit of the country bank notes. Upon communicating this idea to the London bankers, it was eagerly approved of, and the sanction of the government was asked for the experiment. The government consented, and the notes were sent off to the country bankers without delay, and produced instantaneous relief. "At Norwich, when the Gurneys shewed upon their counter so many feet of Bank notes of such a thickness, it stopped the run in that part of the country."* By the 24th of December, the panic was completely allayed all over the country, and the amount of the £1 notes the Bank issued, was under £500,000,† and by the beginning of 1826, the credit of the banking world was completely restored.

34. The circumstances of this famous crisis are the most complete and triumphant examples of the unquestionable truth of the principles of the Bullion Report, and

* Evidence of Mr. Richards.—Bank Charter Report, 1832, p. 407.

† Ibid, p. 400.

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of Sir Francis Baring, already quoted in Chapter VIII. When the drain of treasure from the Bank was severe and unceasing, and notoriously for exportation, on account of foreign loans, the Bank, with infatuated obstinacy, had increased their issues instead of contracting them, in defiance of the clearest warnings of the Bullion Report. When after six months' continuance in this fatal policy, they at last reversed their course, and contracted their issues. In the course of the autumn the drain for exportation ceased, but continued for internal purposes; the demand for gold was entirely to support the tottering credit of the country bank notes. Now, as the country bankers were only too glad to withdraw their own notes, and substitute gold for them, there was not the slightest danger of an increase of Bank of England notes adding to the general amount of paper currency in the country, but just the reverse; consequently, it was just the precise case in which Sir Francis Baring and the Bullion Committee said that it was the duty of the Bank of England to *extend* its issues to support general credit. There was not the smallest danger that an extension of issues would under such circumstances turn the foreign exchanges against the country. The character of the demand was declared in the most unmistakeable manner. On Thursday, the 15th, a meeting of merchants and others took place at the Mansion House, when it was stated that Sir P. Pole & Co. had a surplus of £170,000, after payment of all claims against them, besides large landed property belonging to Sir Peter Pole, and about £100,000, the private property of other members of the firm. Williams and Burgess had enough to pay 40s. in the pound. Now, if the course which was adopted on the Wednesday, had been adopted on the Monday, the whole of that terrific crisis would have been saved. Mr. Vincent Stuckey,

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one of the most eminent country bankers in the kingdom, says:—

"My opinion was that the crisis at that time was brought on by excessive issues; but when the panic came, country bank paper was brought in for Bank of England, and therefore all that was immediately wanted was an EXCHANGE OF PAPER. I stated in a letter I wrote upon the subject to the Bank on the 14th of December, 1825, that they would not have to increase the sum total of circulation; but that all they would have to do was to exchange A. for B., and in my letter I recommended them to issue a million a day, which they did; for, otherwise, most of the banks in London, as well as the country, must have stopped."

And accordingly they did issue, and all contemporary evidence proves that it was this profuse issue of £5,000,000 of paper in a few days, that stayed the panic. If they had persevered in the restrictive policy for three days longer, the total and entire destruction of commercial credit would infallibly have ensued. In short, if they had followed the precedents of 1793 and 1797, so strongly condemned by the Bullion Report, all credit would have been destroyed; they followed the principles laid down in the Bullion Report, and the country was saved.

35. When the causes of this terrible calamity came to be discussed, there were not wanting many who laid the whole blame upon the excessive issues of the Bank, as well as the excessive issues of the country banks. But though it is indisputable that the Bank acted on the most unsound principles, in not contracting its issues when the great drain of bullion for exportation was going on, it is a mere delusion for men to attribute the consequences of their own wild and extravagant mania to the Bank of England, or to any banks. The errors of all the banks put together were trivial compared to outbreaks of speculative insanity which seized upon all classes. It

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was not the issues of some Bank notes more or less which originated the calamity, but the insatiable thirst for growing suddenly rich, that seized upon so many persons, and led them to embark in the maddest schemes totally out of their line of business. Was it the issue of Bank notes that led a respectable bookselling firm to risk £100,000 on a speculation in hops?*

36. The Bank had committed many errors before, as serious as those of 1825, without leading to any such disaster. In fact, it was the nature of the speculations which men had rushed headlong into, that must inevitably have brought about a most terrible calamity, if there had not been a Bank note in existence. The speculative mania of 1694 took place before the Bank was in existence; the great South Sea bubble mania took place when there were no country banks at all, and no one accused the Bank of England, or the London bankers, of having made too profuse issues of notes then, and the great railway mania of 1845-6 took place after it was supposed that the Act of 1844 had effectually secured the country against the recurrence of similar calamities.

37. The bold policy of the Bank of England in that terrible week, in entire accordance with the principles laid down by Sir Francis Baring and the Bullion Report, not only saved a multitude of commercial houses, both banking and trading, but certainly preserved itself from bankruptcy. Though several banks did succumb, the distress was slight, compared to what it would have been if the Bank had persevered in adhering to the policy of 1797. Many houses, it is true, that were aided by the Bank, were only enabled to stagger on for a short time longer, and subsequently failed when their obligations

* Lockhart's Life of Scott. Vol. VI., c. 5. 1st Edition.

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became due; but delaying their fall even for a short time, till the panic had subsided, was of considerable service.

38. The worthless character of a great portion of the country paper had greatly aggravated the intensity of the calamity; in fact, it began with them, and the great commercial failures did not take place until after the banking panic had subsided. The Government and the Bank at last learning wisdom from these repeated convulsions, which seemed to recur periodically, became sensible that it was imperatively necessary to provide a currency of a more solid description for the country, and that the frightful evils of the monopoly of the Bank of England must come to an end.

39. Parliament met on the 3rd of February, 1826, and six paragraphs of the speech from the throne were occupied with the commercial catastrophe, and it said that part of the remedies to be applied consisted in placing the currency and circulating credit of the country on a more firm foundation.* Lord King said that the causes of the calamity were partly to be attributed to the government, in a greater degree to the country Banks, and in a still greater degree to the Bank of England monoply. There was no period of distress during the last thirty or forty years, in which the conduct of that establishment had not been injurious, and in every case aggravated it. It was a most faulty machine. It was impossible that a Bank so incorporated could do good. If the purpose was to erect an establishment to do mischief, they would erect it on the very principles of the Bank. They would give it a monoply, remove from it all fear of rivalry, and connect it with the government. He lamented that the pressure of the country gentlemen

*Hansard. N. S. Vol. XIV., p. 1.

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and the country bankers had been too powerful to be resisted by the ministry in 1822, and had forced them to continue the issues of £1 and £2 notes to keep up prices and encourage speculation. The Earl of Liverpool chiefly blamed the excessive issues of the country banks, and said that the small notes must be gradually withdrawn, and a metallic currency substituted. He said that he was perfectly satisfied, and had entertained the conviction for years, that the country had grown too large, that its concerns had become too extensive to allow of the exclusive privilege of the Bank of England. Its privilege had operated in a most extraordinary and, as he thought, unfortunate manner for the country. Any small tradesman, a cheesemonger, a butcher, or a shoemaker, might open a country bank, but a set of persons with a fortune sufficient to carry on the concern with security, were not permitted to do so.

40. The ministry took upon themselves to prohibit any more stamps being issued to the country banks for £1 and £2 notes. The Chancellor of the Exchequer said that those notes were to be deprecated as an infringement of the act 1819, which no man could deny, was passed if ever any act was, with the unanimous approbation of all the parties of which parliament was composed, an act which had been solemnly resolved upon as the only measure which could enable the country to meet any future danger, by placing the circulating medium on a permanent and stable footing. No man could insinuate that that act was not the result of the deliberate conviction of almost every individual of every party in that house. He then detailed the continual evil and insecurity of the small notes, and said that he always had regretted, and still regretted, the step taken by parlia-

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ment in 1822, which permitted them.* The intention of the government was therefore to suppress them as soon as possible in England, and subsequently in Scotland and Ireland. He moved a resolution, that no fresh notes were to be issued by country bankers in England under £5, and that those printed before the 5th Febrnary, 1826, might be issued, re-issued and circulated until the 5th April, 1829, and no longer.

41. The opinions expressed in parliament and the county were of course most conflicting, as to the causes of this great catastrophe, but the great preponderance of opinion was adverse to the small note issues. Mr. Baring, who defended the country bankers from the accusations levelled against them, said that their small notes were bad as a permanent system, and they ought to be called in. Even although they might sometimes be of almost indispensable use to the country, still if the misery which had been caused by their use, among the poorer classes, were taken into consideration, it was a sufficient reason why the nuisance should be abated;† and it was his opinion that the house had not got rid of this deluge of paper at the time when it had the power to do so, and that it had not resisted, as it ought to have resisted, the importunity of the country bankers. That these small notes should be abolished as soon as practicable.

42. Mr. Huskisson described the frightful nature of the panic during 48 hours (Monday and Tuesday, December 12 and 13), and said that it had been truly observed, that the Bank, by its prompt and efficacious assistance, had put an end to the panic, and averted the

* Hansard. New Series, Vol. XIV. p. 173.

† Hansard. N. S. Vol. XIV. p. 200.

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ruin which threatened all the banking establishments in London, and through them the banking establishments and monied men all over the country. The conduct of the Bank had been most praiseworthy, and had, in a great degree, saved the country from a general convulsion. The Bank throughout its prompt, efficacious, and public spirited conduct, had had the countenance, advice, and particular recommendation of the premier and chancellor of the exchequer. He admitted that the commercial distress in Scotland was very great, but that did not prove that the system of Scotch banking did not afford greater securities than the English system, and that it was desirable to introduce it into this country. He then described the wild spirit of speculation that had seized the country, which produced a rise of prices so rapid, as had never been equalled. He might mention as an instance the price of nutmegs, which rose in one month from 2s. 6d. to 12s. 6d. a lb., and speculation in other spices caused a corresponding rise in their prices. The mania extended equally to other articles of consumption, merchants, traders, shopkeepers, clerks, and apprentices, partook equally of the frenzy of vying with each other in their endeavours to secure a monopoly of each article. And this state of things took its rise, not among the wild, insane, and bedlamite schemers, but among those who were considered the sober, steady merchants and traders of the metropolis. And all this took place at a time when money was rapidly leaving the country. Now, if when it was leaving the country so rapidly, it was still hawked about at a greatly lowered rate of interest, that showed there must be something wrong in the currency. And to what would any sober man say such a state of things must come to it last? The Bank, at last, was obliged to provide for its own safety, by

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narrowing its issues, which checked the spirit of speculation, and as a necessary result, those country banks which had been most rash and immoderate in aiding these speculations by advances, were ruined. The ruin of these bad and unstable banks had affected even the stability of the most solvent ones. A general panic ensued, and seven or eight hundred country banks had asked for assistance to the Bank of England. She had 700 or 800 drains for gold suddenly opened upon her. Was this a safe or proper condition to leave the country in? Certainly not. It was his opinion, an opinion not hastily formed, but the result of long and anxious observation, that a permanent state of cash payments, and a circulation of one and two pound notes could not co-exist. If there were in any country a paper and a coin currency of the same denomination, the paper and the coin could not circulate together, the paper would drive out the coin. Let crown notes be made, and a crown piece would never be seen, make half-crown notes, and no half-crowns would remain in circulation. Allow one-pound notes to circulate, and we should never see a sovereign. One of the great evils they were called on to correct was the excessive issue of paper. This had been the cause of the greatest distress, it had caused the ruin of thousands of innocent persons. Nothing but disgrace and danger could attend the deviation from the true principles of currency, which parliament had solemnly recognized. If they wished to prove the value of a steady unchangeable currency, they had it in the example of France, which had twice been invaded by a foreign army, her capital had been taken, and she had been obliged to pay a large sum to foreign countries for corn, but she had a steady metallic currency, and, however much the great contractors might have suffered, the great body of

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the people had remained uninjured. This was due to the excellent footing upon which the currency of that country was established. If this measure was adopted, every country banker would be obliged to have as great a regard to the exchanges as the Bank of England, and be compelled to provide for his own safety, without leaning upon the Bank in times of danger. Now was the time to withdraw these small notes, when the bankers were smarting under the consequences of their over-issues. They had at present a large amount of gold and bank notes; if they allowed the favourable time to pass by, the small notes would soon be issued again. They had now got the gold in their coffers, and now was the time to provide that it should not be exported again. It would be advantageous to the public to have chartered joint stock banks established under a proper system, with only a limited liability. This would, no doubt, induce many persons of great fortune and credit, to take shares in them, but the Bank objected to the extension of limited liability, and had stipulated that the Banks of Scotland and Ireland should not have this privilege. Some thought that the currency should be even more purely metallic than was now proposed, and that notes of a higher denomination should be suppressed. For himself, he entirely differed from Mr. Ricardo as to the true basis of the currency, and he believed that if Mr. Ricardo, ingenious as he was, had been sole director of the Bank of England, it would before now have stopped payment. He thought Mr. Ricardo's view of the currency quite erroneous.

43. Sir John Newport, as a banker himself, consideredthe issue of small notes to be most injurious to all connected with them, as affording the most dangerous facilities for extravagant speculation. It had been said that a considerable part of the commerce of the country could not be carried on, if these notes were abolished. He was

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quite willing to accept that alternative, and abandon a portion of our commerce, rather than continue them. He did not believe that such would be the case. Now was the best time to abolish this pernicious system, when so many of the country bankers had failed.

44. Mr. Secretary Peel was convinced that the root of the evil lay in the monopoly of the Bank of England, and that if in the year 1793 a set of banks had existed in this country on the Scotch system, it would have escaped the danger it was then involved in, as well as the calamity which had just occurred. In 1793 upwards of 100 banks had failed. In seven years, from 1810 to 1817, 157 commissions in bankruptcy were issued against country bankers, in the crisis which had just occurred 76 failures had taken place. But from the different ways of making compositions, etc., the number of failures should probably be estimated at four times the number of the commissions of bankruptcy. What system could be worse, or more prejudicial to every interest in the country, than one which admitted of such an enormous amount of failures? Contrast what had been the case in Scotland, under a different system. Mr. Gilchrist, a manager of one of the Scotch banks, had been asked by the committee in 1819, how many failures there had been in Scotland within his recollection, and he said there had only been one, that the creditors had been paid 14s. in the pound, immediately, and finally the whole of their claims. These facts were a strong presumptive proof that the Scotch system if not quite perfect, was at least far superior to the one existing in England. The present system of country banking was most prejudicial in every point of view. He then described the terrible misery caused by the failure of the country banks. He trusted that the institution of Joint Stock Banks would place the currency on a firmer footing. He most sincerely trusted that the great obstacle to the

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proposed institutions, the want of a charter, would be removed. He hoped the directors of the Bank of England would seriously consider what advantage they would derive from refusing charters to these banks. He himself could not imagine what benefit they would derive from it; they no doubt had the right to prevent such charters being granted, but he hoped they would refrain from exercising their right. He eulogised highly the conduct of the directors during the late crisis, he could not conceive it possible for any body of men to have acted better, or to have exercised more judgment, discretion, and liberality than they had done; of which he hoped they would give a further instance by not opposing the grant of charters to the proposed new banks. He fully concurred with Mr. Huskisson, that it was impossible to maintain coin in circulation, if paper of the same denomination were allowed to circulate along with it. Now was the most favourable opportunity of getting rid of the small notes. It would be impolitic and unsafe to wait the moment of returning prosperity, as the country bankers would be more reluctant to agree to it, and more able to oppose it. To stand gazing on the bank in idle expectation, now that the river was passable, would be an irreparable mistake. The ministerial propositions prevailed by a majority of 222 to 39, and a motion to continue the small notes of the Bank of England was rejected by 66 to 7.

45. The chief provisions of the Act (Statute 1826, c. 6) for prohibiting small notes in England, are as follows:—

1. The Act repealing the Act (Statute 1777, c. 30), which prohibited promissory notes and bills under 20s., was repealed thereby reviving the former Act; but all notes of private bankers stamped before the 5th of February, 1826, or of the Bank of Eng-

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land stamped before the 10th of October, 1826, were exempted from its operation, and were permitted to be issued, re-issued, and negotiated until the 5th of April, 1829.

2. Any person after that date making, issuing, signing, or re-issuing any note or bill under £5, was subject to a penalty of £20.

3. Any person who published, uttered, or negotiated any promissory or other note, or any negotiable or transferable bill, draft, or undertaking in writing, for the payment of 20s., or above that sum, and less than £5, or on which such sum should be unpaid, should forfeit the sum of £20.

4. These penalties were not to attach to any person drawing a cheque on his banker for his own use.

5. All promissory notes under £20, made payable to bearer on demand, were to be made payable at the Bank, or places where they were issued; and as many more places as the issuer pleased.

46. When the Government determined on suppressing the small note issues in England, they said that it was their intention to extend the measure in a short time to Scotland and Ireland. However much Scotland may have suffered from commercial overtrading, as every commercial country must occasionally do, no banking panic had ever occurred, such as those which had so frequently desolated England. As soon as the ministerial intentions were known in Scotland, a great ferment was excited. Sir Walter Scott published three letters on the subject, under the name of "Malachi Malagrowther,"* which tended much to fan the public enthusiasm, and such an opposition was organized, that the ministry were obliged to consent to appoint committees of both Houses on the subject. These committees sat during the spring of 1826, and investigated the whole subject of Scotch

* Miscellaneous Works, Vol. XXI.

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banking at great length, which had been very little understood in England before that time; and the result was so eminently favourable to the Scotch banking system, that the ministry abandoned their intention of attempting to alter it. The evidence and reports of these committees have already been noticed in Chapter VII.

47. The year 1827 is memorable as the era when the principles of the Bullion Report were at length acknowledged to be true, and professedly adopted by the Bank. Mr. William Ward stated in 1832, that there was not a single person in the Bank but who admitted that its issues should be regulated by the foreign exchanges and the bullion market,* or disposed to act in opposition to it. That in 1819, the Directors had forwarded a resolution to the House of Commons, denying that the exchanges were to be regarded in regulating the issues. Subsequently, however, to that year, opinions became changed, and they found the merits of the case such as they really were. He himself had always been convinced of the truth of Mr. Horner's principle, and from his being connected with the exchanges, had many opportunities of observing the practical truth of it. The Bank directors, however, were not convinced of it, because they found in practice, that the exchanges did not follow the issues of the Bank. But the truth was, that they neglected to consider the country issues, and it was only in 1819 that they obtained a correct account of the issues of country banks; when that was got, it was found that, taking the Bank and the country issues together, the principle was shown to be quite correct. The observation of these facts had gradually convinced the directors, and in 1827 he thought the Court ripe for expunging the resolution

* Report of Bank Charter Committee, 1832, p. 143.

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of 1819, and it had accordingly been done. And in 1832 there was not a single director who disputed its truth.

48. Although the Act of 1775 had forbidden notes under £5 to be issued in England, it did not prohibit the circulation of the Scotch £1 notes in England, and they had always circulated in the districts adjacent to Scotland, and even as far south as York. When the English £1 notes were suppressed, it seemed naturally to follow that the circulation of the Scotch notes in England should be forbidden. But the districts in which they had always circulated were as unanimous as Scotland itself against the measure. In 1828, the ministry brought in a bill to restrain the circulation of Scotch bank notes in England. Sir James Graham presented a petition from the borderers, deprecating, in the most earnest terms, the withdrawal of the Scotch notes to which they had been so long accustomed. For seventy years, they said, they had possessed the advantage it was now sought to deprive them of—the advantage of the Scotch currency. Seven-eighths of the rents of estates were paid in the paper currency of Scotland, and no loss had been sustained in consequence of it. After a debate of two nights, the motion was carried by 154 to 45. The Act (Statute 1828, c. 65) provided that after the 5th of April, 1829, no corporation or person whatever should publish, utter, negociate, or transfer in any part of England, any promissory note, draft, engagement, or undertaking in writing, payable to bearer on demand, for less than £5, or upon which less than £5 remained unpaid, which should have been made or issued, or purport to have been made or issued, in Scotland or Ireland, or elsewhere out of England, under a penalty of not less than £5, or more than £20. The same exemption as to cheques as in the former Act.

49. In 1832, during the crisis of the Reform Bill,

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a run upon the Bank took place, which lasted for about a fortnight; but as it was merely from political feeling in London, and did not extend into the country, no serious result ensued.

50. The Bank charter expired at the end of one year's notice, to be given after the 1st August, 1832, and this time the Bank had done no such services to government as to be in a position to demand from it a renewal of its monopoly several years before it expired. Moreover, these exclusive privileges, as Lord Liverpool said in 1825, were out of fashion. Many great monopolies were now on the eve of breaking up, and the public mind was more roused and enlightened on the subject of banking from the discussions caused about the severe distress of 1825. Before taking any steps towards a renewal of the charter, the government determined to have an enquiry before a secret committee of the House of Commons, which was appointed on the 22nd May, 1832, and consisted of the following members, Lord Althorp, Sir Robert Peel, Lord John Russell, Mr. Goulburn, Sir James Graham, Mr. Herries, Mr. Poulett Thompson, Mr. Courtenay, Colonel Maberley, Sir Henry Parnell, Mr. Vernon Smith, Mr. John Smith, Mr. Roberts, Sir M. W. Ridley, Mr. Attwood, Sir J. Newport, Mr. A. Baring, Mr. Irving, Mr. Warburton, Mr. G. Philips, Lord Morpeth, Mr. Morrison, Mr. Heywood, Lord Ebrington, Sir J. Wrottesley, Mr. Lawley, Mr. Cavendish, Alderman Wood, Mr. B. Carter, Mr. Strutt, Mr. Stanley, Alderman Thompson.

51. The committee was appointed during the height of the political excitement attending the passing of the Reform Bill, and sat for some months, and did not make any report till the end of the session. The inquiry was extremely incomplete. Many of the most interest-

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ing subjects connected with it were scarcely touched upon. But the close of the session made them report the evidence to the House so far as it had gone. It was expected that a new committee would have been appointed in the new parliament to continue the inquiry, but the government in the meantime made up their minds as to the changes they intended to make in the Bank monopoly, and dispensed with any further inquiry.

52. Although the inquiry was left in a very incomplete state as to many branches of the subject, the evidence given embraced many interesting points. The most important of which were, the rules adopted by the Bank for regulating their issues—the expediency or the contrary of publishing their accounts—the expediency or the contrary of establishing Joint Stock Banks, or of having one or more Banks of issue in the metropolis—the causes of the panic of 1825, and the action of the Bank during that period—the advantages or the contrary of making Bank notes legal tender, and the effects of the usury laws on commerce.

53. The great truths regarding the regulation of a paper currency which had been approved of by the Bullion Committee were now unanimously recognised by the directors, and Mr. Horsley Palmer, the governor of the Bank, being asked by what principle in ordinary times, the Bank was guided in the regulation of its issues, said, that in a period of a full currency, and consequently with a par of exchange, the Bank considered it desirable to invest two-thirds of its liabilities of all sorts in interest-bearing securities, and one-third in bullion. The circulation of the country being then regulated by the action of the foreign exchanges, the Bank was extremely desirous to avoid using any active power of regulating the circulation, but to leave that entirely in the hands of the

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public. The action of the public was fully sufficient to rectify the exchanges without any forced action on the part of the Bank in buying or selling securities. He thought it desirable to keep the securities very nearly at the same amount, because then the public could always act for themselves in returning notes for bullion for exportation when the exchanges were unfavourable, and if there was a great influx of gold, the Bank could always re-assume its proportion by transferring part of the bullion into securities. He considered that the discount of private paper was one of the worst means which the Bank could adopt for regulating its notes, as it tended to produce a very prejudicial extension of their notes. He condemned strongly the practice of the Bank during the restriction with respect to the extensive discounts of mercantile paper at 5 per cent. when the market rate was much higher, which necessarily led to an excessive issue.

54. The great majority of the witnesses were in favour of a publication of the accounts of the Bank, as tending to inspire greater public confidence, than the mystery in which they were then enveloped, and also acting as a check upon the directors themselves. Almost all the witnesses were against the establishment of joint stock banks in London, as they would tend to injure the private bankers. Considering the ideas of the age when class interests were supreme, we need not be suprised at this unanimity of feeling ; nor that it rather escaped the attention of the witnesses that it was not the interests of the private bankers, however respectable they were, that was the paramount consideration, *but what was best for the public good.* And still more decidedly were the witnesses opposed, with scarcely an exception, to the establishment of any new joint stock banks of issue in

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London. There was a very prevalent feeling that Bank of England notes should be made legal tender, as a means of allaying a drain on the country bankers, for gold during a panic.

55. It was at this time that we may date the first prominent appearance of the great modern heresy, that bills of exchange and cheques form no part of the circulating medium or currency. As this unhappy doctrine, however, was much more emphatically pronounced a few years later, we may defer considering it to that period. The committee pronounced no opinion of their own on the various points brought out in the evidence.

56. The harvest of 1832 was unusually abundant, which casued a great depression of the price of all sorts of agricultural produce towards the end of 1832, followed of course, by "agricultural distress." This was brought before the notice of parliament in the speech from the throne at the opening of the session of 1833, and a committee was appointed to inquire into it. This distress afforded the irreconcileable enemies of the act of 1819 another opportuninty of attacking it. Mr. Attwood moved for a committee to inquire how far the present distress was connected with the monetary system. Lord Althorp immediately met the motion by an amendment, that any change in the monetary system which would have the effect of lowering the standard of value, was inexpedient, which after a debate of three nights, was carried by a majority of 304 to 49.

57. On the 31st May, 1833, Lord Althorp moved a series of resolutions for the renewal of the Bank Charter, one of which was, that so long as the Bank was bound to pay its notes in gold, Bank notes should be declared legal tender, except by the Bank itself. Several members wished for further delay to consider of the resolutions, as

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the session was nearly at an end; but Sir Robert Peel was decidedly of opinion that the House would be abandoning its duty if it consented to postpone the question. He was of opinion that it was desirable to continue the privileges of the Bank, and that there should be but one bank of issue in the metropolis, in order that it might exercise an undivided control over the issue of paper, *and give facilities to commerce in times of difficulty and alarm*, which it could not give with the same effect if it were subject to the rivalry of another establishment.* He resisted, at great length, the proposition for making Bank notes legal tender, as a departure from the principle of the Act of 1819, and the true principles that should govern a paper currency. It was decided by a majority of 316 to 83, to proceed with the consideration of the resolutions. The plan of making Bank notes legal tender gave rise to much difference of opinion, but was carried by 214 to 156.

58. We have already seen that the public had attempted at various times to form rival banking companies to the Bank of England, and in 1709 and 1742, the Bank acts had been framed to stop up various loop-holes which had been successively discovered. In 1742, the phraseology used had been supposed to be quite effectual for that purpose. At that time, the custom of giving *notes* payable to bearer on demand to their customers in return for deposits, was considered so essentially the fundamental idea of banking, that to prohibit the giving of these notes was deemed an effectual bar upon carrying on the business of banking. But in process of time—about 1772—the London bankers discontinued issuing notes payable to bearer on demand,

* Hansard. Third Series. Vol. XVIII. p. 1336.

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and adopted the modern system of cheques. The Act of 1742 was considered to be so effectual a bar upon establishing banking companies in general, that for a long time it escaped public observation, that the change in the method of doing business enabled banking companies to elude the wording of the Act of 1742. In 1796, when, in consequence of the restrictive measures of the Bank of England, much distress was felt in London from the want of a circulating medium, an association of merchants and bankers was formed, for the purpose of providing a circulating medium, which should not infringe the privileges of the Bank; the question was considered by them, in what the Bank's privilege of exclusive "banking" did consist, and they determined, "The privilege of exclusive banking enjoyed by the Governor and Company of the Bank of England, as defined by the Acts of Parliament under which they enjoy it, seems to consist in the power of borrowing, owing, or taking up money on their bills or notes payable on demand."* About the year 1822, some writers detected this flaw in the monopoly of the Bank, and maintained that a joint stock bank of deposit was no infringement of the Charter, and that such banks might be formed, and carry on a very successful business without issuing notes at all; but by merely following the practice of the London Bankers by adopting cheques. Though this idea was much discussed in pamphlets at that period, no practical result ensued.

59. It is somewhat remarkable that the discovery should have been allowed to lie unfruitful for so long a period. When the Government first entered into negotiation with the Bank in 1833, concerning the terms of the renewal of

* Letter to Mr. Pitt, by Mr. Boyd, 1801, p. 96.

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the Charter, they were persuaded, as well as the whole mercantile community, that the monopoly forbade banks of any description whatever, with more than six partners, being formed. In the course of the negotiation, however, this was brought under the notice of the Government, who took the opinion of their law officers on so important a point. The opinion of the crown lawyers was that the clause did not prohibit joint stock banks of deposit being formed. The directors and proprietors of the Bank were much disturbed at finding this flaw in their monopoly, and requested the Government to have it rectified; but Lord Althorp said that the bargain was that their privileges should not be diminished, but he would not agree to any extension of them. In order to remove all doubts upon the subject, the solicitor-general brought up a clause by way of rider, declaring the right to form such banks. He said that the basis of the contract with the Bank was, that they were to enjoy whatever monopoly they already possessed, but nothing beyond it. He had examined the case with the utmost care, and there was no pretence for saying that such banks were an encroachment upon the monopoly of the Bank. The Bank, as originally founded, was a *bank of issue*, and the monopoly first granted in 1697 must be held to refer only to banks *ejusdem generis*. Such had been the uniform language of all the subsequent Acts. The clause upon which their monopoly rested was strictly confined to the issue of paper money. Banks of deposit were lawful at common law, and it rested with those who said it was forbidden, to point out the Act which prohibited them.

60. The chief provisions of the Act were as follows. (Statute 1833, c. 98):

1. The Bank was continued as a corporation, with such ex-

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clusive privilege of banking as was given by the Act, for a certain time, and on certain conditions, during which time no society or company exceeding six persons should make or issue in London, or within sixty-five miles thereof, any bill of exchange or promissory note, or engagement for the payment of money on demand, or upon which any person holding the same may obtain payment on demand. But country bankers might have an agency in London, for the sole purpose of paying such of their notes as might be presented there.

2. For the purpose of removing any doubts that might exist as to what the exclusive privilege of banking which the Bank of England enjoyed consisted in, it was enacted, that any body politic or corporate, or society or company, or partnership, of whatever number they consisted, might carry on the business of banking in London, or within sixty-five miles thereof, provided that they did not borrow, owe, or take up in England any sum or sums of money on their bills or notes payable on demand, or at any less time than six months from the borrowing thereof, during the continuance of the privileges of the Bank of England,

3. All the notes of the Bank of England, payable on demand, which should be issued out of London, should be payable at the place where they were issued.

4. Upon one year's notice, to be given within six months after the expiration of ten years from the first day of August, 1834, and repayment of all debts due by Parliament to the Bank, its privileges were to cease and determine at the end of the year's notice.

5. So long as the Bank paid its notes on demand in legal coin, they were declared to be legal tender of payment, except by the Bank itself, or any of its branches. No notes not made specially payable at any of the branches, were liable to be paid there; but the notes issued at all the branches were to be payable in London.

6. Regulations about publishing its accounts, and exemptions of bills and notes not having more than three months to run, from the usury laws—these being altered now, need not be detailed.

7. The public were to pay off one-fourth part of the debt due to the Bank, and the proprietors might reduce the capital stock of the Bank by that sum if they chose.

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8. In consideration of these privileges, the Bank was to give up £120,000 a year, from the sum they received for managing the public debt.

61. For several years after the renewal of the Bank charter the harvests were unusually abundant, which caused all sorts of agricultural produce to be ruinously depressed. Wheat fell continuously through 1834 and 1835, till in the last week of December, 1835, its price was 36s. the imperial quarter. As all agricultural contracts were framed on the expectation that wheat would not be much less than 70s. the quarter, this long continued depression produced the most severe distress. At the same time, however, all the manufacturing interests were in a state of unexampled prosperity from the abundance and cheapness of food. The long-continued low price of corn caused less to be sown in 1835, and the spring of 1836 was unfavourable. These causes combined to raise the price of wheat in 1836, and the harvest time being wet and cold, caused the price to rise to 61s. 9d. in the autumn.

62. The state of extraordinary prosperity enjoyed by the commercial interests during 1833-4-5, gave rise to an immense amount of speculation and dabbling in foreign loans, as if people seemed incapable of learning wisdom from the experience of 1825. The unexpected success of the first railway gave rise to a considerable amount of speculation in the formation of railways. An immense extension of the joint stock banking system, economised capital to a great degree, and afforded the means of the most fatal extension of credit. On the 14th August, 1834, Lord Wharncliffe called the attention of the ministry to the prodigious extension of joint stock

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banks and their branches, and the insufficient capital they were trading with.* The important subject of joint stock banking was brought before the House of Commons in 1836, and a committee was appointed to inquire into it. The committee sat during the session and made two reports, which will be noticed in a subsequent chapter. This fever of speculation reached its acme in the spring of 1836. Mr. Poulett Thompson, President of the Board of Trade, said in the House of Commons on the 6th May, 1836,

"It is impossible not to be struck with the spirit of speculation which now exists in the country, but I believe that there is a great difference in the state of things, and what took place in 1825. The spirit of speculation was then turned to foreign adventure of the most extraordinary description; but now speculation is directed to home objects, which if pushed too far may be very mischievous, though the consequences may not be quite so mischievous as in 1825. But really, on turning to any newspaper, or any price current, and observing the advertisements of joint stock companies upon every possible subject, however unfit to be carried on in the present state of society, every man must be struck with astonishment at the fever which rages at this moment for these speculations. I felt it my duty some time ago to direct a register to be kept, taking the names merely from the London and a few country newspapers, of the different joint stock companies, and of the nominal amount of capital proposed to be embarked in them. The nominal capital to be raised by subscription amounts to nearly £200,000,000, and the number of companies to between 300 and 400. * * * The greater part of these companies are got up by speculators, for the purpose of selling their shares. They bring up their shares to a premium, and then sell them, leaving the unfortunate purchasers who are foolish enough to vest their money in them, to shift for themselves. I have seen also with great regret, the extent to which

* Hansard, Third Series, Vol. XXV. p. 1254.

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joint stock banks have sprung up in different parts of the country. I believe, indeed, that great good has arisen from joint stock banks, but the observations I have made with regard to other companies, are equally applicable to many of the joint stock banks that are springing up in different parts of the country, and the existence of which can only be attended with mischief."

63. We have seen, that since the Bank of England had adopted the principles of the Bullion Report in 1827, the method they adopted of carrying them into effect, was to keep their "securities" as nearly as possible even, and to keep their bullion and cash equal to one half the "securities;" the bullion, cash, and securities being together equal to their "liabilities." Having got the Bank into this position while the exchanges were at par, to throw any action either of increase or decrease of their issues of notes entirely upon the public either by means of the foreign exchanges, or by an internal extra demand for gold. The Bank was got into this normal condition in October, 1833, when its "liabilities," *i. e.*, the issues and the deposits, were £32,900,000, the "securities" were £24,200,000, and the bullion £10,900,000.* Some transactions with the East India Company and speculation in South American stocks occurred to derange these proportions in 1834, and caused an export of specie; but in 1835, the foreign exchanges became favourable and the drain was arrested. But in the meantime the Bank had totally lost all power of preserving the proportion between the bullion, securities, and liabilities it had professed to adhere to. The following table taken at intervals, will exhibit this very clearly.

* Report, Banks of Issue, 1840. Evidence of Mr. Palmer, p. 104.

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	Liabilities.	
1 Oct., 1833,	£30,937,000...	Securities, £22,640,000 Bullion, £10,527,000
11 March, 1834,	£31,372,000...	Securities, £24,777,000 Bullion, £8,901,000
15 July, 1834,	£37,554,000...	Securities, £31,735,000 Bullion, £8,298,000
9 Sept., 1834,	£31,058,000..	Securities, £26,643,000 Bullion, £7,010,000
13 Jan., 1825,	£33,071,000...	Securities, £29,165,000 Bullion, £6,608,000
5 May, 1835.	£29,417,000...	Securities, £26,179,000 Bullion, £5,951,000

This was the lowest point which the amount of bullion reached, and the drain was arrested. The above table shows how totally deranged the proportions were to what the directors considered to be a proper position for the Bank. From that time, bullion continued to flow in, till in March, 1836, it slightly exceeded eight millions; but even then, the securities were three times the bullion, instead of twice, as they ought to have been.

64. The amount of bullion in the Bank was at its height in March, 1836, and then began steadily to decline again; in the middle of July, it had fallen below six millions, when the Bank thought it was necessary to endeavour to stop it, and it raised the rate of discount to 4½ per cent. This had no effect, however, in stopping the demand for discount. In September, the bullion barely exceeded five millions, and the Bank raised the rate of discount to 5 per cent. Now the bubbles blown in the preceding year, and spring of 1836, were fast bursting on all hands.

65. The drain on the coffers of the Bank proceeded at a rapid rate, both from external and internal causes.

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President Jackson had determined that the Charter of the National Bank of the United States, which expired in 1836, should not be renewed, and that the currency of that country should be placed on a sounder footing than it had hitherto been, by forming a sound metallic basis. Operations to effect this purpose soon commenced. Immense quantities of American securities of all sorts were imported into England, and negotiated for the purpose of remitting the specie to America. The improperly low rate of discount in this country, favoured by the inordinate multiplication of Banks, enabled a great quantity of these securities of various descriptions, to be realized in England, and the cash was remitted to America.

66. The joint stock banks had been blowing the bubble of credit to the utmost tenuity, by re-discounting most of the bills which they discounted. This practice largely increases the proportion of paper currency compared to the metallic basis, and, of course, adds to any peril in times of discredit. The Bank of England at length, but too tardily, as has almost invariably been the case, awoke to the impending danger, and determined to strike a blow at the distended state of credit. It not only raised the rate of discount to 5 per cent. in August, but absolutely refused to discount any bills endorsed by any joint stock bank of issue. This was a great blow at the great amount of American securities afloat in the country, as most of those bills had been purchased by the joint stock banks, and re-issued with their endorsements upon them.

67. In the autumn of 1836, the symptoms of the coming storm were very apparent, especially in Ireland. One very large joint stock bank, the Agricultural and Commercial, was known to be in difficulties early in the

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autumn, and it made several applications to the other joint stock banks in Ireland and England, and Scotland, for assistance, which they all refused. It also made a call upon its shareholders, which was not responded to. The other Irish banks, foreseeing a stoppage of the Agricultural and Commercial, had been laying in a stock of gold, to meet the run which would necessarily follow the failure of a bank with so many ramifications. The sum in gold which the Irish banks laid in, to provide for the run, was estimated to be not less than £2,000,000,* all of which came from the Bank of England. Much of this was required on account of the extraordinary difference of opinions that were given by the most eminent Irish counsel, as to whether Bank of England notes were legal tender in Ireland. Three very eminent lawyers held that they were legal tender, and three equally eminent held that they were not. The Bank of Ireland itself thought they were not, and was still less inclined to make the experiment when there was such a difference of opinion among the lawyers. The other banks followed the example of the Bank of Ireland, and provided gold.

68. The catastrophe that had been foreseen took place on the 14th of November, when the Agricultural and Commercial Bank stopped payment, which was immediately followed by a general run upon all the banks in Ireland; but it was well met, from the care which had been previously taken to provide specie. So great was the state of discredit, that even Bank of England notes were at a heavy discount in Dublin. The Bank of Ireland would only take them in very small quantities from their customers, at a discount of 2s. 6d. each. During all this time, the diminution of bullion in the Bank of

* Report on Joint Stock Banks, 1837. Evidence of Mr. Mahony. p. 261.

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England was going on rapidly. At the beginning of October, it had £5,035,000 in bullion, to meet £29,869,000 of liabilities; at the end of November, its liabilities were £30,941,000, and its bullion, £3,840,000. During December its bullion slightly increased, and in January diminished again. In November, the Northern and Central Bank, with its head office in Manchester, and thirty-nine branches in the manufacturing districts, became seriously embarrassed, and applied to the Bank of England for assistance, which the Bank at first refused; but upon consulting the leading bankers in London, their opinion was that the stoppage of so extensive a concern in the manufacturing districts would very probably bring on a general panic. The Bank, therefore, determined to advance the sum of £500,000, to enable it to meet its engagements, which, upon subsequently discovering that these were much more extensive than had at first been represented, was further increased to the sum of £1,370,000. Early in January, a London banking-house applied for assistance to the Bank, and on the other London bankers giving their guarantee to the Bank of England, it made advances sufficient to enable that house to meet its engagements. The difficulties attending the American houses, both in London and Liverpool, became now so pressing, that they also were obliged to apply to the Bank. Persons were appointed to look into their affairs, who represented that if assistance were given them to meet their outstanding engagements, they would ultimately prove solvent. As an additional reason for granting this assistance, it was stated that if these American houses were permitted to stop payment, their concerns were so vast, and so extended throughout the north of England, that a general destruction of credit would ensue. After full consideration, the Bank deter-

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mined to attempt to carry these houses through their embarrassments, and for this purpose, it advanced the enormous sum of £6,000,000.* This great operation was, however, successful, though the final liquidation of the account was retarded by the great prostration of American credit in 1839. The advances made to the banking interests in England were all repaid, principal and interest, with one very trifling exception. The Bank thus followed, for a second time, the principles laid down by the Bullion Report, and there can be no doubt, averted a calamity only second in magnitude to the catastrophe of 1825.

69. The assistance of the Bank was only intended to be of a temporary nature, to give time for the gradual withdrawal of the great mass of unsound paper from circulation. This having been effected to a large extent, the result followed which always has been the case, and always must be the case—a great influx of gold, to fill the vacuum caused by the great annihilation of this paper currency. During the whole of 1837, bullion rapidly flowed into the Bank; and in December, it reached the sum of ten millions and a half. The position of the Bank on the 13th of March, 1838, was as follows:

Liabilities.		
£31,573,000	Securities	£21,046,000
	Bullion	£10,527,000

Thus, after a long period of nearly five years, the Bank was at length brought back again into what the directors had laid down for themselves as the normal position; and it enabled credit to pass through a crisis which would

* Report on Banks of Issue, 1840. Evidence of Mr. Palmer, p. 114.

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have been tenfold more severe if it had not been met by that "judicious increase of accommodation" which the Bullion Report declared was the proper remedy for a temporary failure of credit.

70. From 1832 to 1837, there had been a series of seasons of remarkable abundance. For several years a series followed of extreme scarcity. The crop of 1838 was the worst that had been known since 1816; that of 1839 was scarcely, if at all, better. This great deficiency rendered it necessary to import foreign corn to the value of £10,000,000, a considerable portion of this required to be remitted in specie. But just at this period, a number of other concurrent causes happened to create a great demand for gold for foreign countries. During the preceding years America, France and Belgium, had carried the extension of paper credit to most extravagant lengths. In America, the fatal system of issuing Bank notes upon "property" and "securities," had been carried to a length almost worthy of Law. In France and Belgium joint stock banks had been extensively formed. This great extension of paper currency had the very same effect as the over-issue of paper had in England; it drove bullion out of these countries, and was one of the causes which, together with the fortunate destruction of the extravagant paper credit in England in 1837, caused such an influx of gold into this country up to March, 1838. But in this latter year these bubbles burst. In the autumn of 1838 the bank of Belgium failed, and a severe run upon the banks at Paris took place. This revulsion of credit and extinction of paper issues in those countries, caused a current of bullion to set in towards them which came from the Bank of England.

71. In the beginning of 1838, when the bullion in the Bank had been rapidly increasing for several

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months, the commercial world thought it was time for the Bank to make use of the treasure in its vaults. It accordingly reduced the rate of discount from 5 to 4 per cent., and was induced to send over one million of sovereigns to America, the exchanges being favourable to that country in consequence of the destruction of paper, to assist the American banks to resume payment in cash.

72. The bullion in the Bank kept a pretty even amount till December, 1838. On the 18th of that month the liabilities were £28,120,000, the securities £20,776,000, and the bullion £9,794.000. From this date a rapid and steady drain set in, which continued with unabated severity till October, 1839. When the Bank lowered its rate of discount to 4 per cent. in February, 1838, the market rate had fallen still lower, and in summer was about 3 per cent. From that time forward it began to rise, and at the end of the autumn was level with the Bank. While everything was symptomatic of an impending drain of bullion, the Bank on the 29th of November, suddenly lowered its rate to 3½ per cent. for advances upon bills of exchange, East India bonds, exchequer bills, and other approved securities. The market rate of interest was now decidedly higher than that of the Bank, and the consequence was an immediate pressure for accommodation on the Bank. The securities which, in December, 1838, were £19,536,000, mounted up in January, 1839, to £27,594,000, and the bullion fell from £9,522,000 to £8,826,000. The following table will exhibit clearly the progressive diminution of bullion.

	Liabilities.	Securities.	Bullion
18 Dec. 1838	£28,120,000	£20,776,000	£9,794,000
1 Jan. 1839	£28,856,000	£22,377,000	£9,048,000
15 Jan. „	£30,305,000	£24,529,000	£8,336,000
12 Feb. „	£26,939,000	£22,628,000	£7,047,000

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	Liabilities.	Securities.	Bullion.
12 March 1839	£26,088,009	£22,173,000	£6,580,000
9 April „	£29,039,000	£26,622,000	£5,213,000
30 April „	£26,475,000	£24,536,000	£4,455,000
14 May „	£25,711,000	£24,098,000	£4,117,000

73. Up to this time the Bank seemed to have been struck with actual paralysis. Notwithstanding the continuous rise in the market rate of interest, and the unmistakeable drain of bullion that had set in, they, on the 28th February, issued a notice continuing the same rates on the same securities as in the previous November. And it was not until the 16th May that they suddenly raised it to 5 per cent. The above figures show how completely the directors had belied their own principles of keeping the bullion at one-third of the liabilities. The market rate had advanced considerabbly more rapidly, so that the Bank was yet below it. The drain still continued. On the 28th May the bullion stood at £3,910,000, and the liabilities upwards of twenty-four millions and a half ; but the directors seemed so utterly blind, that on the 30th May, the time of shutting the books for the dividends, they still offered advances at 5 per cent. till the 23rd July on the same securities as have been last mentioned. However, on the 20th June, they at last became alarmed, and issued notices that the rate of discount would be 5½, and no securities would be received except bills of exchange.

74. On the 16th July the liabilities were £28,860,000, the securities £28,846,000, and the bullion £2,987,000. The directors at last awoke to the fact, that the Bank was rapidly drifting into bankruptcy. On the 13th July they gave notice that they would be ready to receive tenders

* Reports of Banks of Issue. 1840. p. 256.

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for the purchases of some terminable annuities, but the minimum price they fixed was so high, that no sale took place.

75. Besides raising the rate of discount in May, the Bank sold public securities to the amount of £760,000, and it anthorized bills upon Paris to be drawn on its account to the amount of £600,000. These measures had the effect for a short time of arresting the drain. But when these bills came to maturity the Bank was in no better position to meet them, and it then became necessary to create a larger credit in Paris to meet the first. The position of the Bank was of course well known to all the foreign dealers in exchange, and in June, it was generally expected abroad that the Bank could not maintain payments in specie. In consequence of this, all long dated bills upon this country were sent over for immediate realization, and the values withdrawn as speedily as possible. To counteract this drain, as well as to meet the payments of the first credit which had been created on behalf of the Bank, it was obliged in July to organize a measure of a much larger nature. Messrs. Baring entered into an agreement with twelve of the leading bankers in Paris, to draw bills upon them to the amount of upwards of £2,000,000; and as each of them had only a fixed credit at the bank of France, that bank agreed to honour their acceptances in case they should be presented there and exceed their usual limits. An operation of a similar nature to the amount of £900,000 was organized with Hamburgh. As soon as any bill was drawn on account of one of these operations, the Bank transferred an equal amount of the annuities it had offered for sale in July, to two trustees, one for the drawers and the other for the acceptor. Out of this second credit, the bills which fell due from the creation of the first credit

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were paid. This measure had the effect of gradually arresting the drain of bullion, which reached its lowest point in the week ending the 2nd September, 1839, when it was reduced to £2,406,000. From that time it began slowly to increase; and in the last week of the year it stood at £4,532,000, the liabilities being £23,864,000, and the securities £22,098,000. The operations ensuing from this foreign credit extended over nine months, from July, 1839, to April, 1840, and the highest amount operated upon was in November, 1839, when it was £2,900,000.

76. The figures we have quoted showing the proportions between the bullion and the liabilities of the Bank, are sufficient to shew either that there was some natural impossibility in adhering to the rule the directors had laid down for their own guidance in 1832, or that they had not sufficient firmness to contract their securities in time of pressure to maintain it. The flagrant disproportion which these figures had assumed, which would scarcely be safe in an ordinary banking house, but which were to the last degree perilous in the Bank of England, which was known to be the last resource of every bank in the kingdom in times of difficulty, turned the attention of writers to devise some plan by which, if possible, the Bank should be compelled to maintain the proper proportions between bullion and liabilities. Colonel Torrens appears to have been the originator of the idea which was eventually adopted, of dividing the Bank into two distinct departments, independent of each other; one for the purpose of issuing a regulated amount of notes, and the other for carrying on the business of banking. This plan was first started in 1837, and was much canvassed and discussed by several eminent writers on the subject, such as Mr. Tooke, Mr. Norman, and others; and we shall see

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was afterwards one of the most prominent features in Sir Robert Peel's Act of 1844, and we shall reserve to its proper place the account of the plan which was ultimately adopted. The great commercial and monetary crisis the country had passed through within the few preceding years attracted much public attention, and several petitions were presented to Parliament; and in March, 1840, the government determined to institute an inquiry into the whole system of paper issues. On the 10th of that month the Chancellor of the Exchequer moved for a committee for that purpose.* He reminded the House that the Bank Charter would terminate in 1844, and he thought it expedient that they should not postpone inquiry into the subject till the last moment. That whatever might be the difference of opinion among the most intelligent men as to what part of the difficulties they had gone through, were to be attributed to the Bank of England or other banks, still they were very strongly of opinion that the present system required revision and alteration. Leaving out of consideration former transactions, the difficulties and embarrassments which the country had gone through within the last few years, had led the most important bodies, and the largest of the manufacturing towns, to make complaints—in calm and temperate language—and to express an anxiety that the House should institute an investigation into their complaints, and endeavour to provide adequate remedies. The chief points of interest connected with the report and evidence are,—

1. That the principle propounded in 1832 for the management of the Bank for the purpose of conforming with the principles of the Bullion Report, was totally condemned.

2. The great modern heresy that bills of exchange

* Hansard, 3rd Series, Vol. LII. p. 1112.

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form no part of the circulating medium, or currency, which was first asserted before a Parliamentary Committee in 1832, was now maintained by the great majority of the commercial and banking witnesses.

3. This seems to have been the first adoption by mercantile men of the theory we have noticed in our first volume,* as having been started by Adam Smith, and which is the reigning banking fallacy of the present day, which is now known by the name of the "currency principle." The principle shortly stated is this—*That when Bank notes are permitted to be issued, the number in circulation should always be exactly equal to the coin which would be in circulation if they did not exist.* The advocates of this principle maintain that it is the only true mode of regulating a paper currency, and preserving the paper of equal value with the gold coin. This theory sounds remarkably specious and plausible, and from the eminence of the persons who have been converted to it, has acquired much importance. Nevertheless, we affirm that there never was a greater delusion palmed off upon the credulity of mankind, and that it never could have emanated from or be believed in by any one who had the slightest knowledge of banking accounts. It is, however, necessary to explain the details of banking business, to expose its fallacy, and we shall reserve the consideration of it until we come to that part of our subject.

77. Nothing can be more wearisome than to read through the enormous mass of heterogeneous questions heaped upon one another, without aim or drift, tending to no result, and capable of producing none. Nothing can be more humiliating than the contrast between the Bullion Committee of 1810 and the Committee of 1840. The

* Vol. I. p. 400. Sect. 49.

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Bullion Committee were masters of the science; they knew how to govern the direction of the enquiry, to cross-examine the witnesses, and make them expose their own fallacies, by involving them in contradictions and inconsistencies. And when the witnesses had given their opinions, the Committee were able to judge and decide upon the value of the testimony, and the result was the complete demolition of the opinions of the great majority of the witnesses. But in the Committee of 1840, the want of a presiding mind is painfully conspicuous. They were totally destitute of any knowledge of the principles of the science of banking; and after having protracted the enquiry through two sessions, they were obliged to come to the humiliating confession of their own incompetence to frame a report on the evidence given, and to suggest to Parliament the expediency of appointing a commission for that purpose!

78. From 1838, there ensued a dismal series of four bad harvests in succession, which were attended with much suffering to the people, high prices of corn, and as a natural consequence, large importations of foreign corn, and a very low amount of bullion in the Bank. In fact, the alleged rule of 1832 was a complete dead letter, and it was not till the 27th of August, 1842, that these proportions were again attained, when the liabilities stood at £29,022,000, and the bullion at £9,729,000.* The crops of 1842-3-4 were prodigiously abundant—the latter more so than any for ten years preceding. The consequences of this, as well as other circumstances which happened at that time to economize the capital of the country, produced a cycle of years of great apparent prosperity, but which ended in the great revulsion of 1847. This

* Appendix to Reports on Commercial Distress, 1848, p. 50.

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latter part is beyond the limits of this Chapter. The bullion in the Bank continued steadily and rapidly to accumulate until in December, 1843, it reached a higher limit than it had ever done before, being £14,982,000, and continued to increase after that until the passing of the Act of 1844.

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CHAPTER XI.

FROM THE BANK ACT OF 1844 TO THE PRESENT TIME.

VIEWS OF SIR ROBERT PEEL REGARDING THE CURRENCY, AS EXPRESSED IN HIS SPEECH IN BRINGING FORWARD THE BANK ACT OF 1844—ANALYSIS OF THE ACT—MONETARY PRESSURE IN APRIL 1847—MONETARY PANIC IN OCTOBER, 1847—DRAIN OF BULLION IN OCTOBER 1855.

1. On the 6th May, 1844, Sir Robert Peel moved a resolution of the House, that it was expedient to continue for a limited time certain of the privileges then enjoyed by the Bank of England, subject to any conditions that might be passed by any act for that purpose.* In bringing this resolution forward, he gave a preliminary sketch of the evils of the paper currency as it then stood, and the methods he proposed for placing it on a sounder footing. After dwelling on the importance of a metallic standard, and exposing the absurdity of the theories which were so prevalent during the Restriction Act, and the advantage of having a single standard of value, he addressed himself to the more immediate subject for consideration — the state of the paper circulation of the country, and the principles which ought to regulate it.—

* Hansard. Third Series, Vol. LXXIV. p. 720.

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"I must state at the outset, that in using the word money, I mean to designate by that word the coin of the realm, and promissory notes payable to bearer on demand. In using the words paper currency, I mean only such promissory notes. I do not include in these terms bills of exchange, or drafts on bankers, or other form of paper credit. There is a natural distinction, in my opinion, between the character of a promissory note payable to bearer on demand and other forms of paper credit, and between the effects which they respectively produce upon the price of commodities, and upon the exchanges. The one answers all the purposes of money, passes from hand to hand without endorsement, without examination, if there be no suspicion of forgery; and it is in fact what its designations imply it to be, currency or circulating medium. * * * I think experience shews that the paper currency, that is, the promissory notes payable to bearer on demand, stands in a certain relation to the gold coin and the foreign exchange, in which other forms of paper credit do not stand. There are striking examples of this adduced in the Report of the Bullion Committe of 1810, in the case both of the Bank of England, and of the Irish and Scotch banks. In the case of the Bank of England shortly after its establishment, there was a material depreciation of paper in consequence of its excessive issue. The notes of the Bank of England were at a discount of 17 per cent. After trying various expedients, it was at length determind to reduce the amount of Bank notes outstanding. The consequence was, an immediate increase in the value of those which remained in circulation, the restoration of them to par, and a corresponding improvement in the foreign exchanges. In the case of Ireland in 1804, the exchange with England was extremely unfavourable. A committee was appointed to consider the causes. It was denied by most of the witnesses from Ireland that they were at all connected with excessive issues of Irish notes. * * * In the spring of 1804 the exchange of Ireland with England was so unfavourable that it required £118 10s. of the notes of the Bank of Ireland to purchase £100 of the notes of the Bank of England. Between the year 1804 and 1806, the notes of the Bank of Ireland were reduced from £3,000,000 to £2,410,000, and the effect of this, taken in conjunction with an increase of the English circulation, was to restore the relative value of Irish paper, and the exchange

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with England to par. In the same manner an unfavourable state of the exchange between England and Scotland has been more than once corrected by a contraction of the paper circulation of Scotland. In all these cases the action has been on that part of the paper credit of the country which has consisted of promissory notes payable to bearer on demand. There has been no interference with other forms of paper credit, nor was it contended then, as it is now contended by some, that promissory notes are identical in their nature with bills of exchange, and with checks on bankers, and with deposits, and that they cannot be dealt with on any separate principle."

2. There is no need now of saying anything more regarding the unhappy heresy with which Sir Robert Peel was then infected, that nothing but Bank notes are paper currency, because we have nothing new to say. But it is impossible to imagine anything more inaccurately stated as historical evidence to support his ideas. In the first place, he committed the immense error of omitting to consider, that in the English and Irish cases these things happened when the English and Irish Bank notes were *not* payable to bearer on demand, when they were in fact inconvertible. In his statement regarding the Bank of England he relied upon the Bullion Report. Now we have shown by the most incontrovertible evidence in Chapter VIII, that this passage of the Bullion Report is the most amazing mass of chronological error and confusion that can be imagined. It was not the profuse issues of Bank notes that depressed the exchanges, but the *badness of the coin;* it was not taking Bank notes out of circulation that brought the exchanges to par, but the *restoration of the coinage*, and the exchanges were brought to par nine months before the Bank note was brought to par. Hence, in this case, the statement that the excessive issues of Bank notes caused the exchanges to fall, and the withdrawal of them restored them to par, has not a shadow

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of a foundation in truth. Hence, there is no truth whatever in saying that the action was upon the Bank notes—the action was simply and solely on the *silver coinage.* The Irish case is equally inapplicable, because the notes were then inconvertible, and they were the medium in which payment of bills of exchange was made; and then unquestionably, an excessive quantity of them depressed the exchanges prodigiously; but how does such a case apply to notes strictly convertible? The Scotch case is equally inapplicable—we have already detailed it in Chapter VII—for the notes were *not* payable to bearer on demand, but six months after demand. Consequently, of these three examples, the first is wholly inaccurate, and the other two are wholly inapplicable to the case he had in hand.

3. He then proceeded to expatiate on the evils of unlimited competition of issues—

"Are the lessons of experience at variance with the conclusion we are entitled to draw from reason and from evidence? What has been the result of unlimited competition in the United States? In the United States the paper circulation was supplied not by private bankers, but by Joint Stock Banks, established on principles apparently the most satisfactory. There was every precaution taken against insolvency, unlimited responsibility of partners, excellent regulations for the publication and audit of accounts, immediate convertibility of paper into gold. If the principle of unlimited competition controlled by such checks be safe, why has it utterly failed in the United States? How can it be shown that the experiment was not fairly made in that country? Observe this fact, while there existed a central Bank (the United States Bank) standing in some such relation to the other banks of the United States, as the Bank of England stands to the banks of this country, there was some degree (imperfect, it is true) of control over the general issues of paper. But when the privileges of the central bank ceased, when the principle of free competition was left unchecked, then came, notwithstand-

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ing professed convertibility, immoderate issues of paper, extravagant speculation, and the natural consequences, suspension of cash payments, and complete insolvency. Hence I conclude, that reason, evidence, and experience, combine to demonstrate the impolicy and danger of unlimited competition in the issue of paper."

4. It is impossible to say which is the more remarkable in this extract—the evidence Sir Robert Peel omitted, or the evidence he adduced. The first thing that strikes us is, What was the need of crossing the Atlantic in search of an example of joint stock banks, with unlimited competition of issues? Why did he not cross the Tweed? On the north side of the Tweed, there had existed joint stock banks with unlimited issues for 150 years, and no central bank to control the others; the principle of free competition was left unchecked, and the natural consequences, "suspension of cash payments, and complete insolvency," had never occurred. But Sir Robert Peel carefully avoided saying one word about that case, and the reason was, that it militated against the theory he was determined to carry at all hazards, *that of one central bank of issue.*

5. But the evidence he adduced was as great a misrepresentation of historical fact as what we have quoted in Section 2. The American banks, indeed, established on principles the most satisfactory! why John Law was the parent of American banking! They were a formal adoption of the wild theories of Law. However, we cannot fully expose the fallacy of Sir Robert Peel's views of American banking until the next chapter; but as to the fact of the Central Bank of the United States exercising any due controlling influence over the other banks, we will only quote a passage from President Van Buren's message to Congress, 1839.

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"I am aware it has been urged that the control (over the operations of the local banks) may be best attained and exerted by means of a national bank. *The history of the late National Bank through all its mutations shows that it was not so.* On the contrary, it may, after a careful consideration of the subject, be, I think, safely stated, that at every period of banking excess, it took the lead; that in 1817 and 1818, in 1823, in 1831, and in 1834, its vast expansions followed by distressing contractions, led to those of the state institutions. It swelled and maddened the tides of the banking system, but seldom allayed or safely directed them. At a few periods only was a salutary control exercised, but an eager desire, on the contrary, exhibited for profit in the first place; and if afterwards its measures were severe towards other institutions, it was because its own safety compelled it to adopt them. It did not differ from them in principle or in form; its measures emanated from the same spirit of gain; it felt the same temptation to over-issues; it suffered from, and was totally unable to avert those inevitable laws of trade, by which it was itself affected equally with them, and at least on one occasion, at an early day, it was saved only by extraordinary exertions from the same fate that attended the weakest institutions it professed to supervise. In 1837, it failed equally with others, in redeeming its notes, though the two years allowed by its charter had not expired, a large amount of which remains at the present time outstanding."

Such was the language held by the Government regarding that institution to whose abolition Sir Robert Peel attributed the destruction of American credit! and if we were to descend from the evidence of the executive to that of the most eminent private commercial writers, such as Mr. Galatin, Mr. Lee, Mr. Appleton, and others, we shall find that the most reckless mismanagement was the chief characteristic of that bank. So much for the value of it, as an argument in support of Sir Robert Peel's views!

6. Sir Robert Peel then said that some contended,

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and he was not prepared to deny the proposition—that if we had a new state of society to deal with, the wisest plan would be to claim for the state the exclusive privilege of the issue of promissory notes, as we have claimed for it the exclusive privilege of coining. They considered that the state is entitled to the whole profits to be derived from that which is the representative of coin, and that if the state had the exclusive power of issuing paper, there would be established a controlling power which would ensure, as far as possible, an equilibrium in the currency. Is it necessary to point out the gross and ludicrous fallacy of Sir Robert Peel in this sentence? It is the height of incorrectness to say that the state has the exclusive power over the coinage, or at least, that she has reserved it to herself. Ever since the reign of Charles II., every private person has the right to have bullion coined at the mint; formerly both gold and silver, to an unlimited extent. Since 1816, this privilege is confined to gold coin. At this moment all persons are entitled to have as much gold bullion as they please coined at the mint; the only thing the state reserves to itself is the privilege of *coining* it, so as to insure its being of a certain weight and fineness. But in what way is this analogous to the issue of promissory notes? The only duty of the state is to take measures that those who issue notes shall be in a condition to fulfil their promise of payment on demand. He then stated it was the intention of the Government to increase as much as possible the power of a single bank of issue, and that bank should be the Bank of England. The Bank was, therefore, to continue its privileges of issue, but it was to be divided into two departments, the one for the purpose of issuing notes, the other for the ordinary business of banking. But the Bank was to be deprived, once for all, of the power of unlimited issues.

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These were to take place in future on two foundations only; 1st, a fixed amount of public securities; and 2ndly, bullion. The amount of issues upon public securities was permanently fixed at £14,000,000; every other note was to be issued in exchange for bullion only, so that the amount of the notes issued on bullion should be governed solely by the action of the public. Although Sir Robert Peel wished that there should only be a single bank of issue, yet existing interests were to be regarded; and those banks which were at that time lawfully issuing their own notes might remain banks of issue; but their amount was to be strictly limited to a certain definite average. There were other details concerning joint stock banks which we shall reserve.

7. On the 20th of May, Sir Robert Peel introduced his further resolutions, and proposed that in the event of any country banks of issue failing, or withdrawing their notes voluntarily from circulation, the Bank might, with the consent of the crown, increase its issues to a definite proportion of the notes thus withdrawn. And further, that the Bank should be obliged to buy all gold bullion presented for purchase, at £3 17s. 9d. per ounce, (the Bank had been giving only £3 17s. 6d.) and a certain proportion was allowed to be on silver bullion, as the export of that was a proper remedy for the inconvenience of our standard differing from that of other nations. It was, therefore, of great importance to ensure such a stock of silver in this country, as might meet the wants of merchants, and prevent them having to send to the Continent for it. He proposed that the silver bullion upon which the Bank might issue notes should not exceed one-fourth of the gold bullion.

8. It was impossible for Sir Robert Peel not to see the inconsistency of his measure of 1844, with his ex-

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pressed sentiments in 1819 and 1833, that it was inexpedient to limit the issues of the Bank to any fixed amount, because there were times of commercial difficulty, when an increased issue of notes might be the proper remedy. There is no doctrine more strenuously insisted by the Bullion Report, by the statesmen of 1819, as well as by the Government in 1833, and Sir Robert Peel himself, at both these periods, than that it was impossible to fetter the discretion of the Bank in its issues. Sir Robert Peel knew that he was now taking away this power from the Bank altogether, and accordingly he was obliged to meet this objection. He said:

"It is said that the Bank of England will not have the means which it has heretofore had of supporting public credit, and of affording assistance to the mercantile world in times of commercial difficulty. Now, in the first place, the means of supporting credit are not means exclusively possessed by banks. All who are possessed of unemployed capital, whether bankers or not, and who can gain an adequate return by the advance of capital, are enabled to afford, and do afford that aid which it is supposed by some that banks alone are enabled to afford. In the second place, it may be a question, whether there be any permanent advantage in the maintenance of public or private credit, unless the means of maintaining it are derived from the *bona fide* advance of capital, and not from a temporary increase of promissory notes, issued for a special purpose. Some apprehend that the proposed restriction upon issue will diminish the power of the Bank to act with energy at the period of monetary crisis and commercial alarm and derangement. But the object of the measure IS TO PREVENT (so far as legislation can prevent) the recurrence of those evils from which we suffered in 1825, 1836, and 1839. IT IS BETTER TO PREVENT THE PAROXYSM than to excite it, and trust to desperate remedies for the means of recovery."

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Sir Robert Peel, therefore, deliberately took away the power of the Bank to act in extreme occasions, under the impression that his Act would prevent these extreme occasions from arising. We shall see how this hope was fulfilled.

9. Sir Charles Wood followed Sir Robert Peel, travelling over the same ground, and giving the same caricatured description of American banking as he had done; moreover, he also was infected with what is known by the name of the "currency principle."

"It is not enough, then, to enact that the Bank notes shall be convertible. The paper circulation must not only be convertible, but must vary in amount from time to time as a metallic circulation would vary. A system, therefore, of paper circulation is required, which will attain this object, and insure a constant and steady regulation of the issues on this principle. This, and this alone, affords a permanent security for the practical convertibility of the notes at all times, and for the consequent maintenance of the standard."

10. The Bill was read a second time after a feeble opposition, by a majority of 185 to 30. It passed through the House of Lords with a very short debate, and no division. Lord Radnor alone protested against it, and it received the Royal Assent on the 19th of July, 1844.

11. The chief provisions of this Act are as follows. Statute 1844, c. 32:

1. That after the 31st August, 1844, the issue of Bank notes by the Bank of England should be kept wholly distinct from the general banking business, and be conducted by such a committee of the directors as the Court might appoint, under the name of the "Issue Department of the Bank of England."

2. That on the same day, the Governor and Company should

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transfer, appropriate, and set apart, to the issue department securities to the value of £14,000,000, of which the debt due by the public to the Bank was to be a part; and also so much of the gold coin and gold and silver bullion as should not be required for the banking department. The issue department was then to deliver over to the banking department an amount of notes exactly equal to the securities, coin, and bullion, so deposited with them. The Bank was then forbidden to increase the amount of securities in the issue department; but it might diminish them as much as it pleased, and increase them again to the limit defined, but no further. The banking department was forbidden to issue notes to any person whatever, except in exchange for other notes, or such as they received from the issue department in terms of the Act.

3. The proportion of silver bullion in the issue department, on which notes were to be issued, was not at any time to exceed one-fourth part of the gold coin and bullion held at the time by the issue department.

4. All persons whatever, from the 31st August, 1844, were to be entitled to demand Bank notes in exchange for standard gold bullion, at the rate of £3 17s. 9d. per ounce.

5. If any banker who, on the 6th of May, 1844, was issuing his own notes, should cease to do so, it should be lawful for the Crown in council to authorise the Bank to increase the amount of securities in the issue department to any amount not exceeding two-thirds of the amount of notes withdrawn from circulation.

6. Weekly accounts in a specified form were to be transmitted to Government, and published in the next *London Gazette.*

7. From the same date the Bank was relieved from all stamp duty on their notes.

8. The annual sum payable by the Bank for their exclusive privileges should be increased from £120,000, as settled in 1833, to £180,000. And all profits derived by the Bank from the increase of their issues above the £14,000,000, as prescribed by the Act, shall go to the public.

9. After the passing of the Act, no person other than a banker who was lawfully issuing his own notes on the 6th May, 1844, should issue Bank notes in any part of the United Kingdom.

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10. After the passing of the Act, it was forbidden to any banker to draw, accept, make, or issue in England or Wales, any bill of exchange, or promissory note, or engagement for the payment of money payable to bearer on demand, or to borrow, owe, or take up in England or Wales, any sum or sums of money, or the bills or notes of such banker payable to bearer on demand, except such bankers as were on the 6th May, 1844, issuing their own Bank notes, who were allowed to continue their issues in such manner, and to such extent as afterwards provided. The rights of any existing firm were not to be affected by the withdrawal, change, or addition of any partner, provided the whole number did not exceed six persons.

11. Any banker who ceased to issue his own notes from any reason whatever, after the Act, was not to resume such issues.

12. All existing Banks of issue were forthwith to certify to the commissioners of stamps and taxes the place, and name, and firm, at and under which they issued notes during the twelve weeks next preceding the 27th April, 1844. The commissioners were then to ascertain the average amount of each Bank's issues, and it should be lawful for such banker to continue his issues to that amount, provided that on an average of four weeks they were not to exceed the average so ascertained.

13. If any two or more banks of issue had become united during that twelve weeks, the united bank might issue notes to the aggregate amount of each separate bank.

14. The commissioners were to issue in the *London Gazette* a statement of the authorized issues of each bank.

15. If two or more banks afterwards became united, each of less than six partners, then the commissioners might authorize them to issue notes to the amount of their separate issues. But if the number of the united bank exceeded six, their privilege of issuing notes was to cease.

16. If any banker exceeded his authorized issues he was to forfeit the excess.

17. Every bank of issue was to send a weekly account of its issues, which was to be published in the *London Gazette*.

18. The mode of taking the average was laid down, and

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bankers were to permit their books of accounts to be inspected by a goverment officer properly appointed, and to make a return to Government once every year, within the first fortnight in January.

19. The Bank of England was allowed to compound with private banks of issue, to withdraw their own notes, and issue Bank of England notes, for a sum not exceeding one per cent. per annum, up to the 1st August, 1856.

20. All banks whatever in London, or within 65 miles of it, were allowed after the passing of the Act to draw, accept, or endorse bills of exchange, not being payable to bearer on demand.

21. The privileges of the Bank were to continue till twelve months' notice, to be given after the 1st August, 1855; and repayment of the public debts, and all other debts whatever.

12. Such are the leading provisions of Sir Robert Peel's Act, which was meant to carry out a particular theory of currency, which we have no hesitation in affirming, is one of the most stupendous delusions on the subject that any one ever conceived. A theory as opposed as possible to the opinions of all the greatest authorities on the subject, during the great discussions on the currency in 1804, 1811, and 1819, which we have already abundantly quoted in the former part of this volume. But the most remarkable circumstance, is that the Act authorizes the most flagrant violation of the principle it is intended to enforce. For the issuing of notes upon the public funds is the most vicious principle possible. It is the theory of John Law, which we shall more fully consider in the next chapter. We have no hesitation in saying, that not one single speaker in Parliament, or writer, had the slightest glimpse of the true method of regulating the paper currency, which is by *regulating the rate of discount.* It was by neglecting this, that all the great monetary crises were brought on. Indeed, so utterly blind was one of the more distinguished advocates

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of this theory to the true nature of monetary science, that he boasted that, "practically considered, fluctuations in the rate of interest, and in the state of commercial credit, so far as they can result from alteration in the value of the currency, may, under the operation of the proposed system, be taken at nihil."*

13. The avowed object of the Act of 1844 was to take the regulation of the currency out of the hands or even the power of the directors of the Bank of England. The incorrigible mismanagement of that body had, in the opinion of every body, aggravated every crisis. The authors of the Act of 1844 flattered themselves that for every five sovereigns that left the country, a five-pound note must be withdrawn from circulation. We shall see hereafter how this expectation was fulfilled. In the meantime, Sir Robert Peel himself and all the supporters of the Act, gave out that it was the complement of the Act of 1819, though we confess we do not clearly see the meaning of the phrase. If, however, they mean to say that it was in the spirit of the Act of 1819, or of the statesmen of that period, we wholly deny such to be the fact, and to suppose so, only argues the most profound ignorance of the sentiments of the authors of the Act of 1819.

14. The issues of notes, then, of the Bank of England, are founded upon two of the most fatal delusions that ever prevailed on the subject of the paper currency; the one the theory of John Law, and the other the "currency principle," which originated with Adam Smith, and came into fashion about twenty years ago.

15. We have observed in the last chapter, that owing to the good harvests of 1842-3-4, the bullion in

* Col. Torrens. Tooke's Hist. of Prices, Vol. IV. p. 282.

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the Bank accumulated very rapidly during these years, and a very large quantity of money, which the nation must otherwise have spent in food, was set free for commercial purposes. Other circumstances occurred at the same time to liberate a large quantity of the capital of the country from its accustomed use, and to render it applicable to commercial purposes, which have been very clearly and ably pointed out by Mr. James Wilson.* He shows that the rapidity and certainty of conveyance reduces very greatly the amount of stock it is necessary at all times to keep on hand when communications are slow and uncertain. That the amount of goods in transit is much larger with a slow conveyance than a quick one. For example, when Manchester supplies London with manufactured goods—if it takes seven days by canal for these goods to reach London, it is clear that there must always be seven days' consumption of goods on the way. If the same transit is accomplished by railway in one day, it is only necessary to have one day's consumption on the way; and the capital employed in producing the other six days' consumption is liberated, and may be employed in promoting other commercial operations. When we consider the enormous economy of capital required in the transaction of the same amount of business which was effected by the introduction of more rapid modes of communication, whether by railways or steamboats, we shall understand how greatly they increased the national resources. There can be no doubt that the economy of national capital effected by the extension of railways far exceeded the losses which occurred from unsuccessful speculation in them. Now, these operations were beginning to have their full effect in saving the national capital, simulta-

* Capital, Currency and Banking. Preface, p. xix.

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neously with the good harvests of 1842-3-4, and helped to swell the quantity of disposable capital to an unprecedented extent.

16. An attentive consideration of these circumstances is absolutely necessary, because they show, if anything were necessary to show it, the gigantic error committed by many writers, who think that the prices of goods must vary exactly with any increase or decrease of the amount of the currency, whereas, there is no necessary relation between the two whatever. The particular methods of doing business have the most important influence on the quantity of capital necessary to carry it on; and a clumsy or more ingenious method of transacting business may make the most important changes in the quantity of money necessary to circulate any given amount of commodities without causing any alteration in the price of those commodities.

17. The Act of 1844 having placed an absolute limit upon the discretion of the Bank in issuing notes, Sir Robert Peel said that he thought that banking business could not be too free and unrestrained. The extraordinary accumulation of capital, arising from the circumstances we have just detailed, lowered the market rate of discount to 1¾ and 2½, in the best bills, and the Bank of England immediately conformed to the market rate on the passing of the Act, and reduced its rate from 4 per cent. to 2½ for the best bills.* The day the Act came into operation, indeed, the whole of the discounts were done at 1¾, and they continued at that rate for a fortnight, when some were done at 2 per cent.; and up to the 26th October a considerable portion was done at 2¼. From this date, however, up to October, 1845, the rate was 2½. In

* Tooke's Hist. of Prices, Vol. III. p. 294.

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November 1845, the rate was suddenly raised to 3½, and continued at that figure till August 1846, when it was lowered to 3 per cent. These rates being governed by the flow of bullion, which diminished from 15½ millions when the Act of 1844 passed, to 13½ millions in November, 1845; after which it increased again to above 16 millions in August, 1846, and then began steadily to decline till it reached its minimum in the great crisis of October, 1847.

18. The first failure of the potato crops in Ireland in 1845, and the railway mania of that year, must be too fresh in the recollections of most persons to need repetition here; nor had they anything to do properly with the management of the Bank, whose sole proper duty was to look to its own affairs, and preserve its own stability. The calamity of 1846 was far more severe and extensive than that of the preceding year. It was absolutely certain that an immense quantity of bullion would require to be exported in payment of the grain it would be necessary to import. Accordingly, from the middle of September 1846, a steady and continuous drain of bullion set in, *but the Bank made no alteration in the rate of discount* until the 16th January 1847, when the bullion had fallen to £13,949,000, it raised the rate of discount to 3½, and on the 23rd, the bullion having been further diminished by £500,000, it raised the rate to 4 per cent. Henceforth the drain continued rapidly, but the Bank still continued to make no alteration until the 10th April, when its treasure being reduced to £9,867,000, the rate of discount was raised to 5 per cent. Here we have the same inveterate blunder committed by the Bank as on so many previous occasions—an immense drain of bullion, and yet none but the most feeble, inefficient, and puerile means taken by the Bank to raise the value of

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money here. But the operation of the Bank at this time is an excellent example of the self-acting nature of the Act of 1844. We need only observe, that the Banking Capital of the Bank of England is £14,000,000 of notes based upon public securities, together with notes representing as much bullion as there is in the issue department. Consequently, the notes held in reserve must always be equal to the difference between the notes in circulation, or held by the public, and the sum of £14,000,000 added to the quantity of bullion. Now, we have seen that the intention of the framers of the Act of 1844 was, that as the bullion diminished, the notes in the hands of the public should be diminished in conformity to the "currency principle." Let us now see, 1st, How the Bank was inclined to act on the principle; and, 2dly, Supposing they were disinclined to do so, how far the Act by its self-acting principles compelled them to do so. The following figures speak for themselves.*

1846.	Bank Notes.		Total Amount of Bullion.	Minimum Rate of Discount Per Cent.
	Held by the Public.	Held in Reserve by the Bank of England.		
August 29	20,426,000	9,450,000	16,366,000	3
October 3	20,551,000	8,809,000	15,817,000	"
November 7	20,971,000	7,265,000	14,760,000	"
December 19	19,549,000	8,864,000	15,163,000	"
1847.				
January 9	20,837,000	6,715,000	14,308,000	"
—— 16	20,679,000	6,546,000	13,949,000	3½
—— 30	20,469,000	5,704,000	12,902,000	4
February 20	19,482,000	5,917,000	12,215,000	"
March 6	19,279,000	5,715,000	11,596,000	4
—— 20	19,069,000	5,419,000	11,232,000	"
April 3	19,855,000	3,700,000	10,246,000	"
—— 10	20,243,000	2,558,000	9,867,000	5

* Appendix to Reports on Commercial Distress, 1848. p. 16.

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These figures show the utter futility of the idea that as the bullion diminished, the Act could compel a reduction of notes in the hands of the public, for the notes in circulation were within an insignificant trifle as large in amount when the bullion was only £9,867,000, as when it was £16,366,000. Consequently, nothing could be a more total and complete failure of the Act of 1844, on the very first occasion its services were required.

19. The number of notes held in reserve in the Banking department, under the new system of 1844, corresponded in effect, very much to the amount of the bullion held by the Bank before its division. When, therefore, the public saw that the whole banking resources of the Bank were reduced to £2,558,000, a complete panic seized both the public and the directors. The latter adopted measures of the most unprecedented severity to check the demand for notes. The rate was not only raised to 5 per cent., but this was only applicable to bills having a very few days to run, and a limit was placed upon the amount of bills discounted, however good they might be. Merchants who had received loans were called upon to repay them without being permitted to renew them.* During some days it was impossible to get bills discounted at all.† These measures were effectual in stopping the efflux of bullion, and a sum of £100,000 in sovereigns, which had been actually shipped for America, was relanded.‡ During this period the rate of discount for the best bills, rose to 9, 10, and 12 per cent. During all this time the price

* Tooke's Hist. of Prices. Vol. IV. p. 305.

† Committee on Commercial Distress, 1848. Mr. Gurney's Evidence. p. 133.

‡ Ibid. p. 146.

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of wheat continued steadily to rise, notwithstanding the monetary pressure; and at the close of May, the price on one occasion reached 131s. in the Windsor market. The foreign exchanges, which had been adverse to the country during the latter part of 1846 and the beginning of 1847, from the immense quantity of foreign corn which was imported, became favourable in the middle of April, partly owing to the great monetary pressure.

20. The pressure passed off after the first week in May, having lasted about three weeks, and bullion began to flow in after the 24th of April, until, at the end of June, it amounted to £10,526,000, the notes in circulation being £18,051,000, and the notes in reserve, £5,625,000.

21. The conduct of the Bank, in keeping down the rate of discount when a rapid drain was going on, and the foreign exchanges were unfavorable, was the exact counterpart of what it had done on so many previous occasions, and excited much comment and adverse criticism by the whole commercial community of London. The market rate rose decidedly above it, so that a rush for discounts was made to the Bank, which were no sooner obtained in notes, than the holders of them went immediately to the issue department to demand gold for them.

22. On the 7th of May, the Chancellor of the Exchequer brought the subject of the monetary pressure before the House,* and stated that he had numerous deputations to him respecting a suspension of the Act of 1844, which the Government were not prepared to adopt. However, he meant to assist the Bank so far as to dis-

* Hansard. Third Series, Vol. XCII., p. 528.

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pense with the aid the Government usually had from the Bank at Quarter day. With this view, he intended to raise the interest on Exchequer Bills, which were then at a greater depreciation than any other species of government security, to 3d. per day. On the 10th, he brought in a resolution, to allow all persons who had subscribed to the eight million Irish loan a discount of 5 per cent. on any instalment paid in before the 18th of June, and 4 per cent. if paid in before the 10th of September.

23. The enormously high price of grain, which had no parallel since 1812, had the natural effect of tempting a great number of houses to enter into speculations for the import of grain, far beyond their power to support.* The enormous importations in May, June, and July, coupled with the very favorable appearance of the harvest, caused a heavy and continuous fall in the price of grain, and the reports of the potatoe crop being favorable, the price of wheat fell to 49s. 6d. in September. But the tremendous fall in the price of wheat had been attended with ruin to the houses which had speculated in it. Moreover, that hideous nuisance which always flourishes with noxious luxuriance in times of speculation—accommodation paper—was extensively prevalent. The failures in the corn trade began in August, which engendered a great discredit in that and other branches of commerce. On the 7th of August, the minimum rate of discount was raised to 5½; but this only referred to very short-dated paper, as the greater part of the paper discounted was charged at much higher rates, even up to 7 per cent., which were maintained up to the 9th of October.

* Committee on Commercial Distress, 1848. Evidence of Mr. H. Palmer, p. 147.

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24. On the 9th of August, the first of the frightful catalogue of failures began. Leslie, Alexander and Co. stopped payment, with liabilities amounting to £500,000. On Wednesday, the 11th, Coventry and Sheppard stopped for £200,000, and King, Melville and Co., also for £200,000, and several other minor firms made the total failures in the first week amount to £1,200,000. In the next week, Giles and Co. failed for £100,000, and the total in the second week was £300,000. In the following week, Robinson and Co. failed for £110,000, the senior partner of which firm was the Governor of the Bank of England. In three weeks, the failures were £3,027,000. Week after week followed, each one increasing in severity, until at last, the total exceeded £15,000,000. In the middle of September, Saunderson and Co., the eminent bill brokers, stopped payment, being much involved with the great houses in the corn trade. The exchanges, which had been brought to par in April, by the monetary pressure in that month, were, in consequence of the increasing severity of the crisis, become decidedly favourable, and, on the 25th of September, bullion began to flow in. During the whole of September, the commercial calamities were falling fast and thick.

25. Almost all the firms connected with the Mauritius, such as Reid, Irving and Co., failed, principally from having their funds locked up in sugar plantations. This was accompanied by immense failures in the India trade; the credit commonly given in that trade being of unusual length, which affords dangerous facilities for stretching it to too great a length. The railway works which had been sanctioned in the session of 1845-6, were now in full operation, causing an immense demand for ready money. Almost every tradesman in the kingdom, from Land's End to John O'Groat's, was deep in railway

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speculations. The extravagant delirium of prosperity in 1845-6, had caused great numbers of them, not only to live far beyond their means themselves, but to trust their customers beyond all the bounds of ordinary credit. We have heard it said, that in numberless instances, their bills for goods furnished in 1845 were unpaid in 1847. There can be no doubt whatever but that commercial credit of all sorts and descriptions, among all classes of traders, was in probably a more unhealthy state than it had ever been before, and that an unprecedentedly large portion of the community were entangled in obligations, of which there was no prospect of their ever working themselves free. Sharp and severe, therefore, as the remedy was, it unquestionably was the very best thing that could happen, that this unhealthy superstructure should be cleared away, and that commerce should be reconstructed upon an improved and renovated basis. The extreme pressure may be considered to have begun on the 23rd of September, when the Bank adopted more stringent measures for curtailing the demand upon its resources. Ever since the 26th of June, the diminution of bullion had been going on rapidly; on the 2nd of October, it was reduced to £8,565,000; the notes in circulation being £18,712,000, and the reserve, £3,409,000. This rapid diminution of their resources showed the directors that the time had come when they must think of their own safety; and on that day they gave notice that the minimum rate on all bills falling due before the 15th of October, would be 5½; and they refused altogether to make advances on stock or Exchequer Bills.* This last announcement created a great excitement on the stock exchange. The town and country bankers hastened to sell their public

* Tooke's Hist of Prices, vol. IV., p. 315.

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securities, to convert them into money. The difference between the price of consols for ready money, and for the account of the 14th of October, showed a rate of interest equivalent to 50 per cent. per annum. Exchequer bills were sold at 35s. discount. Everything became worse and worse day by day. On the 16th of October, the Bank rates of discount varied from 5½ to 9 per cent. At this time, the bullion was £8,431,000; the notes in circulation, £19,359,000; and in reserve, £2,630,000. The following week, from Monday the 18th, to Saturday the 23rd, was the great crisis. On that Monday, the Royal Bank of Liverpool, with a paid-up capital of £800,000, stopped payment, which caused the funds to fall 2 per cent. This was followed by the stoppage of the North and South Wales Bank, also of Liverpool, the Liverpool Banking Company, the Union Bank of Newcastle, heavy runs on the other banks in the district, and other bank failures at Manchester, and in the west of England. As the whole of the commercial world knew that the resources of the banking department were being rapidly exhausted, a complete panic seized them. A complete cessation of private discounts followed. No one would part with the money or notes in his possession. The most exorbitant sums were offered to and refused by merchants for their acceptances.

26. The continued and ever-increasing severity of the crisis caused deputation after deputation to be sent to the Government, to obtain a relaxation of the Act, and on Saturday, the 23rd of October, the final determination of the ministry to authorise the Bank to issue notes beyond the limits prescribed by the Act, was taken, and communicated to the Bank, who immediately acted upon it, and discounted freely at 9 per cent. The letter itself was not actually sent till Monday, the 25th. It stated

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that the Government had expected that the pressure which had existed for some weeks would have passed away, like the one in April had done, by the operation of natural causes; that, being disappointed in this hope, they had come to the conclusion, that the time had come, when they ought to attempt, by some extraordinary and temporary measure, to restore confidence to the mercantile community. That for this purpose, they recommended the directors of the Bank of England, in the emergency, to enlarge the amount of their discounts and advances upon approved security; but that, in order to restrain this operation within reasonable limits, a high rate of interest should be charged, which, under the circumstances, should not, they thought, be less than 8 per cent. That if such a course should lead to any infringement of the law, they would be prepared to propose to Parliament, on its meeting, a Bill of Indemnity. This letter was made public about 1 o'clock on Monday, the 25th, and no sooner was it done so, than the panic vanished like a dream! Mr. Gurney stated that it produced its effects in ten minutes! No sooner was it known that notes *might* be had, than the want of them ceased! Not only did no infringement of the Act take place, but the whole issue of notes, in consequence of this letter, was only £400,000; so that while at one moment, the whole credit of Great Britain was in imminent danger of total destruction, within one hour it was saved by the issue of £400,000.

27. The extraordinary and disastrous state of public credit at this period may be judged of, by the aid afforded by the Bank of England to different establishments from the 15th of September to the 15th of November, as follows:

1. It advanced £150,000 to a large firm in London, who

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were under liabilities to the extent of several millions, on the security of debentures of the Governor and Company of the Copper Miners of England, which prevented them stopping payment.

2. It advanced £50,000 to a country banker, on the security of real property.

3. It advanced £120,000 to the Governor and Company of the Copper Miners, which prevented them stopping payment.

4. It advanced £300,000 to the Royal Bank of Liverpool, on the security of bills of exchange, over and above their usual discounts; but this was inadequate, and the bank having no further security to offer, stopped payment.

5. It advanced £100,000 to another joint stock bank in the country.

6. It advanced £130,000, on real property, to a large mercantile house in London.

7. It advanced £50,000 to another mercantile house, on the security of approved names.

8. It advanced £50,000, on bills of exchange, to a joint stock bank of issue, which soon after stopped payment.

9. It advanced £15,000 on real property, to another mercantile house in London.

10. It saved a large establishment in Liverpool from failing, by forbearing to enforce payment of £100,000 of their acceptances falling due.

11. It assisted another very large joint stock bank in the country, by an advance of £800,000 beyond its usual discount limit.

12. It advanced £100,000 to a country banker, on real security.

13. It advanced to a Scotch bank £200,000 on the security of local bills, and £60,000 on London bills.

14. It assisted another Scotch bank, by discounting £100,000 of local and London bills.

15. It advanced £100,000 to a large mercantile house in London, on approved personal security.

16. It assisted a large house in Manchester to resume payment, by an advance of £40,000 on approved personal security.

17. It advanced £30,000 to a country bank on real property.

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18. It assisted many other houses, both in town and country, by advances of smaller sums on securities not usually admitted; and it did not reject, in London, any one bill offered for discount, except on the ground of insufficient security.

The far larger portion of this assistance was given before the 23rd of October.*

28. A general election had taken place in the Autumn of 1847, and the ministry having taken upon themselves the responsibility of authorising the Bank of England to violate the Act of 1844, lost no time in calling a meeting of the new Parliament. It met on the 18th of November, and after a few preliminary days were occupied in swearing in the members, the speech from the throne was delivered on the 23rd. The first paragraphs stated, as a reason for calling them together, that the embarrassments of trade were so alarming, that the Queen had authorised the ministry to recommend to the Bank of England a course which might have led to an infringement of the law. Happily, however, the power given to infringe the law, if necessary, had allayed the panic.

29. On the 30th of November, the Chancellor of the Exchequer moved for a committee to enquire into the causes of the recent commercial distress, and how far it had been affected by the Act of 1844.† He spoke of the panic in the Spring. He said that he had seen no reason to change the opinion he had then expressed, that it was mainly owing to the imprudence of the Bank, which, having full warning of the various demands it

* Report on Commercial Distress of 1847. Evidence of Messrs. Morris and Prescott, p. 201.

† Hansard. Third Series, Vol. XCV., p. 383.

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would have upon it, were too tardy in raising the rate of discount, and had lent out, over the period when the dividends became payable, the money they had provided for that purpose; so that they were not in possession of adequate funds when they were required. The low state of their reserve then excited consternation. The Bank then took the severe step of reducing the amount of discounts; they pulled up as suddenly as they had unwisely let out their reserve before. With respect to the panic of October, he said that the severe pressure in the money market had abated when the bank failures in Liverpool and the North of England took place, which renewed the alarm. After describing the great pressure on the banks in the country, he said:

"The Bank of England were pressed directly for assistance from all parts of the country, and indirectly through the London bankers, who were called upon to support their country correspondents. The country banks required a large amount of notes, to render them secure against possible demands; not so much for payment of their notes, as of their deposits. Houses in London were applying constantly to the Bank for aid. Two bill brokers had stopped, and the operations of two others were nearly paralysed. The whole demand for discount was thrown upon the hands of the Bank of England. Notwithstanding this, as I before said, the Bank never refused a bill, which it would have discounted at another time, but still, the large mass of bills which, under ordinary circumstances, are discounted by bill brokers, could not be negotiated. During this period, we were daily, I may say hourly, in possession of the state of the Bank. The Governor and Deputy-Governor at last said they could no longer continue their advances, to support the various parties who applied to them; that they could save themselves, that is, they could comply with the law; but that they could not do so without pressing more stringently on the commercial world. At this crisis, a feeling as to the necessity of the interposition of Government appeared to be generally entertained; and those

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conversant with commercial affairs, and least likely to decide in favor of the course we ultimately adopted, unanimously expressed an opinion, that if some measures were not taken by the Government to arrest the evil, the most disastrous consequences must inevitably ensue. Evidence was laid before the Government, which proved, not only the existence of severe pressure from the causes I have stated, but also that it was aggravated in a very great degree by the hoarding, on the part of many persons, of gold and Bank notes, to a very large extent, in consequence of which an amount of circulation which, under ordinary circumstances, would have been adequate, became insufficient for the wants of the community. It was difficult to establish this beforehand, but the best proof of the fact is in what occurred after we interfered. As soon as the letter of the 25th October appeared, and the panic ceased, thousands and tens of thousands of pounds were taken from the hoards, some from boxes deposited with Bankers, although the parties would not leave the notes in their banker's hands. Large parcels of notes were returned to the Bank of England cut into halves, as they had been sent down into the country; and so small was the real demand for an additional quantity of notes, that the whole amount taken from the Bank when the unlimited power of issue was given, was under £400,000. The restoration of confidence released notes from their hoards, and no more was wanted, for this trifling quantity of additional notes is hardly worth notice. * * * Parties of every description made applications for assistance to us, with the observation, 'We do not want notes, but give us confidence.' They said, 'We have notes enough, but we have not confidence to use them; say you will stand by us, and we shall have all that we want; do anything in short that will give us confidence. If we think that we can get Bank notes, we shall not want them. Charge any rate of interest you please, ask what you like—(*Mr. Spooner*, no! no!) I beg pardon of the honorable gentleman, but I may be permitted to know what was actually said to me. I say, that what I have stated, was the tenor of the applications made to me. Parties said to me, 'Let us have notes, charge 10, 12 per cent. for them, we don't care what the rate of interest is. We don't mean, indeed, to take the notes, because we shall not want them; only tell us that we can get them, and this will at once restore confidence.' We

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have been asked what was the change of circumstances which induced us to act on Saturday when we declined acting a day or two before. I reply, that the accounts which we received on Thursday, Friday, and Saturday, were of a totally different description from those which had been previously brought us. It was on Saturday, and not before, that this conviction was forced upon us, and it was not till then that we felt it necessary to sanction a violation of the law."

The persons applying generally said that it was necessary to place a limit on the amount to be authorized which they proposed should be £2,000,000 or £3,000,000, but the Government thought that the limit should be placed on the rate of interest, and accordingly this was the method adopted.

30. Sir Robert Peel felt particularly called upon to come forward and defend the Act of 1844. After defending himself from some minor charges, he protested against singling out individual members of Parliament, and making them responsible for the acts of the whole legislature. He said that some persons alleged that the Act of 1844 had been passed without due enquiry, but he recounted the committees that had sat for five years, and had asked on the whole, upwards of 14,000 questions—questions and answers without end, but with no practical result from those apparently interminable investigations. The last committee had closed its labors without any practical results. At last, the ministers determined to bring forward a measure on their own responsibility, which had been carried by extraordinary majorities; but, nevertheless, if it could be shown that the Act of 1844 could be amended, that it ought to be done.

"There has been some misapprehension respecting the objects of

* Hansard. Third Series. Vol. XCV. p. 650.

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this Act. I do not deny that one of the objects contemplated by the Act was the prevention of the convulsions that had heretofore occurred in consequence of the neglect by the Bank of England to take early precautions against the withdrawal of its treasure. I did hope that, although there was no imperative obligation on the Bank of England to take those precautions, that the experience of 1825, 1836, and 1839, would have induced that establishment to conform to principles which the directors of the Bank acknowledged to be just, and which they had more than once professed to adopt for their own regulation. Sir, I am bound to say, that in that hope, that in that object of the bill, I have been disappointed. I am bound to admit, seeing the extent of commercial depression which has prevailed, and the number of houses which have been swept away, some of which, however, I think were insolvent long before the Bill came into operation, and others of which became insolvent in consequence of the failure of those who were connected with them, and were imprudent in their speculations, I am bound to admit, that that purpose of the Bill of 1844, which sought to impress, if not a legal, at least a moral obligation on the Bank, to prevent the necessity for measures of extreme stringency by timely precautions, has not been fulfilled. Sir, I must contend, that it was in the power of the Bank, if not to prevent all the evils that have arisen, at least, greatly to diminish their force. If the Bank had possessed the resolution to meet the coming danger by a contraction of its issues, by raising the rate of discount, by refusing much of the accommodation which they granted between the years 1844 and 1846—if they had been firm and determined in the adoption of those precautions, the necessity for extrinsic interference might have been prevented; it might not then have been necessary for the Government to authorise a violation of the Act of 1844. * * * The Bill of 1844 had a triple object. Its first object was that in which I admit it has failed, namely, to prevent by early and gradual, severe and sudden contraction, and the panic and confusion inseparable from it. But the Bill had at least two other objects of at least equal importance—the one to maintain and guarantee the convertibility of the paper currency into gold; the other to prevent the difficulties which arise at all times from undue speculation being aggravated by the abuse of paper credit in the form of

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promissory notes. In these two objects my belief is that the Bill has completely succeeded. My belief is that you have had a guarantee for the maintenance of the principle of convertibility such as you never had before ; my belief also is, that whatever difficulties you are now suffering, from a combination of various causes, those difficulties would have been greatly aggravated if you had not wisely taken the precaution of checking the unlimited issues of the notes of the Bank of England, of Joint Stock Banks, and private banks."

31. Sir Robert Peel then entered into a most able description of the true evils the country was suffering under, which arose from the enormous destruction of capital by the dearth of food, and the unusual absorption of capital in one channel of commerce, the construction of railroads, which were not yet remunerative. He showed the absurdity of expecting to have cheap money while capital was scarce. The whole of his remarks are so admirable, that we regret that their length prevents us from giving them entire. He cordially approved of the course the Government had taken in not issuing the letter sooner than they did, and in doing it when they did. The true remedy for the state of things under which the country was suffering, was individual exertion, the limitation of engagements, the cessation of all demands which could be postponed ; an earlier issue of the letter would have relaxed these necessary exertions. But to that pressure a panic succeeded, which could not be provided against or foreseen by legislation, which could not be reasoned with, and which could only be met by a discretionary assumption of power by the Government suitable to the emergency. Whether any modification in the Act of 1844 was desirable, was a question for future consideration. His own opinion was

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in favour of the maintenance of the great principles of that measure. If the identical restrictions were not imposed upon the Bank as were then in force, still there must be some restrictions; for, after the experience of 1825, 1836, and 1839, he for one would not be content to leave the regulation of the monetary concerns of this country to the uncontrolled discretion of the Bank. In 1844, the general conviction was that it ought not to be so left, and he for one knew no better mode of imposing restriction than that which was devised by the Act of 1844. Fully agreeing with Sir Robert Peel on the necessity for a restriction, we think that the restriction devised by the Act of 1844 is not the true one, and that it leaves open the door to the Bank for the most fatal mismanagement. We shall endeavour to show in a future chapter, that one may be devised which must be effectual.

32. The Committee appointed by each House began to sit in February, 1848. The Governor, Mr. Morris, and the Deputy-Governor, Mr. Prescott, were examined at great length before each committee, and expressed their unqualified approbation of the Act of 1844, and the manner it had worked. The object of the Act was to place the circulation of this country exactly in the same position as it would have been if the currency had been entirely metallic.

"Your opinion is, then, that with regard both to the contraction of the currency and the expansion of the currency, they would both have taken place precisely in the same mode, and to the same degree, had the currency been purely metallic?"

Mr. Morris.—"Yes, I have not the slightest doubt upon the subject."*

They said that its object was to secure the converti-

* Lords' Committee. Evidence, p. 3.

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bility of the note, which it had effectually done. That the Bank acted erroneously in the spring of 1847 in not raising their rate of discount sooner, which much contributed to the monetary pressure in April. They said that the government letter of the 25th October was not sought for by them, nor issued in any way at their instance, that they had no fear whatever for the Bank, and that it was not required to maintain the solvency of the Bank; but, nevertheless, it had the best effects in allaying the commercial panic. That the panic would inevitably have occurred even without the Act of 1844, but that Act brought it on sooner, and probably made it less severe. That the great merit of the Act was, that when the pressure did come, the Bank was in possession of £8,000,000 of treasure, that if the Bank had been left free it would probably have followed the course of dangerous liberality which it had done on so many presious occasions. That, though the Government letter did relieve the panic, it would probably have passed away without it. They earnestly deprecated any alteration of the Act, except that they thought the permission to issue notes upon silver bullion too limited.

33. Mr. S. Gurney* agreed in blaming the management of the Bank during the first three months of 1847, and said that if the Bank had commenced restrictive measures much earlier, the pressure of April would have been mitigated. He said, that in October the rapid diminution of the reserve caused a very general distrust among the public, as to how they were to obtain circulating medium. The wealthy and more powerful took care very largely to over-provide themselves, infinitely beyond the necessities of the case. The consequence

* Evidence. Lords' Committee, p. 127.

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was, that the notes in the hands of the public amounted to nearly £21,000,000, of which he had no doubt that four or five millions were locked up and inoperative in consequence of the alarm and fear of not being able to get Bank notes at all. In illustration of this, he said that his own house was largely called upon for money on Saturday the 23rd, not from distrust of the house, but from doubt that Bank notes were to be had at all. They applied to the Bank for discount to a large amount, which was agreed to, but they were told the rate must be 10 per cent.; upon remonstrating with the governor, and saying that it would have the worst effect if it became known that their house was paying 10 per cent. for money, the rate was finally agreed upon at 9 per cent. At this rate they took £200,000. On Monday, the 25th, however, the demand was again very heavy, and they applied for £200,000 more. It was a case of difficulty with the Bank under its reduced reserve and the limitation of the Act, and a final decision was postponed till two o'clock. At one o'clock, however, the letter from the Government was announced, authorizing the relaxation. Its effect was immediate. Those who had sent notice for their money in the morning sent word that they did not want it, and that they had only ordered payment by way of precaution. After the notice, they only required £100,000 instead of £200,000, the alarm passed off, and by the end of the week they had to ask the Bank as a favour, to be allowed to repay the money they had taken. Mr. Gurney stated, that the experience of the last two years had altered his opinion respecting the Act, and that he thought it necessary there should be a relaxing power somewhere.

34. Mr. Loyd was of opinion that the Act of 1844 had no effect whatever in aggravating the pressure in

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April;* that the course pursued by the Bank from January to April was extremely erroneous and detrimental to the public interest, and was only stopped by the positive provisions of the Act; and if that system of procedure had not been so stopped it must have ended in the most disastrous consequences.

35. Mr. George Carr Glyn had been of opinion before the Act passed, that the division of the Bank into the issue and banking department was a desirable experiment, but after the experience of the preceding year, considered that it had decidedly failed.†

36. The Committee of the Commons presented their report on the 8th of June, 1848. It entered into no philosophical examination of the correctness, or the contrary, of the opinions of the witnesses; it aspired to and attained to no higher function than acting as a kind of preface to the mass of evidence, but concluded by stating the opinion of the Committee, that it was not expedient to make any alteration in the Act of 1844. The report of the Committee of the Lords was presented in July, and was a much more eloborate production. It not only examined the evidence at considerable length, but pronounced an opinion of its own, and recommended that the Act should be so far amended as to introduce a discretionary relaxing power, which was only to be exercised during the existence of a favorable foreign exchange.

37. On the 22nd of August, Mr. Herries moved that the House would, early next session, take the Report into consideration, which motion was negatived. In the next session, he made another attempt to induce Parliament to alter the Act, but without avail.

38. After the severe medicine the body commercial

* Lords' Committee. Evidence, p. 149. † Ibid, p. 213.

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had been subjected to by the great crisis of 1847, which there can be little doubt, was of great service, by removing houses that had been insolvent for years, the commerce of the country was established on a sounder basis, and has gone on, generally speaking, with great prosperity up to the present time. The chances of war led to a great demand for shipping, and of course, much speculative dealing in that property. This occurred especially at Liverpool in the autumn of 1854, and led to some very extensive failures. The revelations which ensued from these failures disclosed that the same inveterate and abominable practices of accommodation paper were again rampant. Fictitious bills to an enormous amount were fabricated among persons who were in the same species of business, and were negotiated all over the kingdom. Other parties resorted to practices even more disgraceful still, if possible. These great failures, which are too well known to require naming here, gave credit a very serious shock; in addition to which, a considerable number of persons who were engaged in extravagant over-trading to Australia, suffered severe losses. As the past year, however, passed on, credit somewhat revived, and is now in a sounder position than it was then. There is nothing to call for special remark, except that a great drain of bullion began from the Bank of England at the end of June, and continued rapidly and steadily till the middle of October. On the 23rd of June, it stood at £18,169,000, including the coin and bullion in both departments; and by the 13th of October, it was reduced to £11,752,000. The causes of this great outflow are not sufficiently ascertained yet, for us to reason upon them with accuracy. Some attributed it to the purchases of corn which the high price of wheat here caused to be made for importation – some to operations of the Bank of France.

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Time will probably furnish us with more satisfactory and accurate information. What the causes were is of comparatively slight moment. We are happy to say that the Bank of England acted, in this case, with a promptitude and decision most favorably contrasted with its former errors. The rate of discount was rapidly raised, to enhance the value of money. On no former occasion has the rise been so frequent and extensive in so short a time; but the effect produced has been most salutary.

39. The following table, taken at intervals, shews the bullion in the Bank, and the rate of discount:

1855.	Bullion in the Issue Department.	Rate of Discount.
	£	
January 4	13,180,835	5 per cent.
„ 20	11,880,560	„
February 22	12,313,230	„
March 22	13,479,975	„
April 12	14,392,500	4½ per cent.
May 3	14,791,785	4 „
„ 17	15,336,510	„
„ 31	16,337,685	„
June 14	17,056,945	3½ per cent.
„ 28	17,429,435	„
July 19	16,631,890	„
August 9	15,601,590	„
September 6	14,368,010	4 per cent.
„ 13	13,668,005	4½ per cent.
„ 27	12,695,250	5 per cent.
October 4	12,368,255	5½ per cent.
„ 18	11,205,855	6 per cent. for bills not longer than 60 days.
November 8	10,741,320	7 per cent. for bills not longer than 95 days.
December 6	10,580,570	„
„ 27	10,369,595	„

For several preceding weeks, the *Economist* reported the money market to be as tight as it could well be. But on the 29th of December, it said:

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"The money market continues as stringent as it can well be, and no bills can be discounted under the Bank rates. High terms and short dates is the rule. Paper at long dates cannot be discounted on any terms. The great extent of our trade, as indicated by the returns for November, confirms the suspicion awakened by the continued demand for money, *that trade has received no serious check from the advance in the rate of discount*, and is still more extensive than prudence warrants, or in the end, will be justified."

40. This most judicious conduct on the part of the Bank, which merits nothing but unqualified commendation, has excited a prodigious clatter among a certain number of people who think that money is to be got by writing "promises to pay" on bits of paper, and that it is possible to send one's money abroad and also to have it at home. The public papers have been teeming for weeks and months past with letters filled with all the rank follies upon the subject, which have been refuted countless numbers of times. The Act of 1844 having in a measure expired, will no doubt be exposed to a fierce onslaught in Parliament in the coming session. That it is founded upon a false theory we have no doubt; that the machinery it provides for effecting its object is imperfect, and ought and can be amended, we have as little doubt; but that its object and aim ought to be held inviolable is equally certain; nor, however strong the popular clamour of thoughtless writers and speakers may be, is there, we are happy to think, the least reason to fear that there is not firmness, and sagacity, and honesty enough in Parliament to resist all attempts to tamper with the measure of value.

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CHAPTER XII.

ON SOME THEORIES OF CURRENCY.

EXPLANATION OF JOHN LAW'S THEORY OF MONEY AND ITS FUNDAMENTAL FALLACY.—ALL ATTEMPTS TO REDUCE LAW'S THEORY OF MONEY TO PRACTICE MUST NECESSARILY TERMINATE IN RUIN—ALL THEORIES OF CURRENCY WHICH ATTEMPT TO FOUND A CIRCULATING MEDIUM UPON 'COMMODITIES, ARE FORMS OF LAWISM.—CAPITAL IS THE ONLY TRUE BASIS OF A CIRCULATING MEDIUM—CAPITAL AND CREDIT, PRESERVING AN EQUALITY OF VALUE WITH CAPITAL, ARE ITS ONLY TRUE LIMITS—FALLACY OF THE BANK THEORY OF REGULATING THE PAPER CURRENCY BY THE DISCOUNT OF MERCANTILE BILLS—THE RATE OF DISCOUNT IS THE ONLY TRUE METHOD OF REGULATING THE PAPER CURRENCY—FALLACY OF A PREVALENT DOCTRINE OF PAPER ISSUES.

1. It now becomes our essential and most important duty to investigate some theories of currency, which have acquired great celebrity, not only from their historical interest as having led to some of the most extraordinary and heartrending public calamities on record, but because they are still extensively believed in at the present day. It is of essential importance not only to lay the true foundations of monetary science, but also to point out the fundamental fallacies upon which some specious, but fatally delusive theories rest, which have brought the most disastrous consequences upon those nations which have adopted them, as will always be the

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case when the eternal laws of nature are systematically and perseveringly violated.

2. The first of these theories we shall designate as LAWISM, not because John Law was the original deviser of it, but because he was the first who wrote the most formal treatise on it, and he had the opportunity of carrying it out on the most extensive scale. His name, therefore, must always be most prominently associated with it; and it is one so specious, but so dangerous and so widely prevalent at the present time, that it requires to be branded with a distinctive name, and to be combated with all the power of argument that can be brought against it.

3. It is impossible to say who first invented the theory we are going to notice; in fact, it must have sprung up indigenously among almost any people who first began to form theories of paper currency. The most notorious precursors of Law, were Dr. Hugh Chamberlain who brought forward a rival scheme to the Bank of England in 1693, and Mr. Briscoe, one of the chief promoters of the Land Bank of 1696. We must pass over, however, the crazy delusions of Chamberlain, because they never obtained any practical importance. He strongly accused Law of having stolen his ideas from him, which Law strenuously repudiates, and points out the distinctions, almost without a difference, between them ; and it must be admitted that Law's ideas are not so entirely extravagant as Chamberlain's.

4. Law first published his theory in a tract, called "Money and Trade Considered," at Edinburgh, in 1705. He was the son of a goldsmith, and of extremely dissipated habits, but of an extremely acute intellect; and up to a certain length, his views are sagacious and correct—much more so, indeed, than those of many writers at the

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present day. He observed the extreme poverty and barbarousness of Scotland, which he thought might be cured by bringing an additional quantity of money into the country; and as silver was scarce, he attempted to devise a scheme for providing a substitute for it.

5. He begins by many very sound and acute remarks on the value of commodities, and the causes of their change of value. He describes the qualities which fitted silver to be used as money, above every other commodity. He attributes the very inconsiderable trade of Scotland to the small quantity of money she possessed.* This is the first fundamental fallacy, because the fact was, it was just the reverse; Scotland had little money *because* she had little trade. He, however, perceived the fallacy of lowering interest by law. He then goes on to consider the various means which have been employed to increase the quantity of money. He says that some countries have raised money in the denomination; some have debased it; some have prohibited its export under the severest penalties; some have obliged traders to bring home bullion in proportion to the goods they imported. But he says that all these measures have been futile and vain, and none of them have been found to increase, or preserve money.† He then says, that the only effectual method hitherto discovered for the increase of money, was the erection of banks. He then describes various banks. Some made it a principle to issue no more notes than they had of actual bullion. He then mentions the Bank of England, and the superiority of its notes over those of the goldsmiths. He then describes the Bank of Scotland, and says that it issued notes to four or five times the value of the money in the Bank, which he very

* Money and Trade considered, p. 34. Edit. 1750. † Ibid., p. 63.

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justly says were equivalent to so much additional money. He then points out the absurdity of supposing that raising the denomination of the money, added to its value: that if the shilling was raised to 18d., it paid debts by two-thirds of what was due, but did not add to the money; "for it is not the sound of the denomination, but the value of the silver is considered." The wonderful philosophers of 1811, no doubt, looked down with prodigious disdain upon Law, but they might have studied him with advantage. He then points out with much detail the fraud and inutility of tampering with the currency. He describes the additional effect which credit may give to money; but says that credit which promises a payment of money cannot well be extended beyond a certain proportion it ought to have with the money. Nothing can be more judicious and sound than his remarks upon credit—that it must always vary in proportion to the metallic basis it is built upon; and up to this point, his sagacity and penetration are in advance of the doctrines of a century later; but here is the boundary, after which he plunges into that fatal and delusive fallacy which is the distinctive feature of what we denominate LAWISM.

6. Thinking that money was so scarce in Scotland, that any credit that could be built upon it would be insignificant, he says:

"It remains to be considered, whether any other goods than silver can be made money with the same safety and convenience.

"From what has been said about the nature of money, it is evident that *any other goods which have the qualities necessary in money*, MAY BE MADE MONEY EQUAL TO THEIR VALUE with safety and convenience. There was nothing of humor or fancy in making silver to be money; it was made money because it was thought best qualified for that use.

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"I shall endeavour to prove that another money may be established, with all the qualities necessary in money, in a greater degree than silver."

7. He then proceeds to shew at great length that silver had some peculiarities that disqualified it from being the best substance to form money of; that it varied in value; that it had increased much faster in quantity than the demand for it, and had, therefore, fallen much in value. In fact, he tries to prove that silver had varied in value more than any other kind of goods, within the last two hundred years; that goods would always maintain a uniformity of value, because they only increased in proportion to the demand; that land would always rise in value, because the quantity would always remain the same, but the demand would continually increase; but that silver would always fall in value, as the quantity increased faster than the demand.

8. Law then proceeds to deny that he had taken his ideas from Chamberlain, of which the latter had accused him; and it must in candor be admitted, that his ideas were many degrees less mad than those of Chamberlain. Law asserts that he had formed his schemes many years before he had seen any of Chamberlain's papers.* "Land indeed is the value upon which he founds his proposal, and 'tis upon land that I found mine; if for that reason I have encroached upon his proposal, the bank of Scotland may be said to have done the same. There were banks in Europe long before the doctor's proposal, and books have been written on the subject before and since. The foundation I go upon has been known so long as money has been lent on land, and so

* Money and Trade Considered. p. 153.

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long as an heritable bond has been equal to a quantity of land."

9. The difference between Chamberlain's theory and Law's was this. Chamberlain maintained that if land was mortgaged for 100 years, it was a good security for 100 times its annual value; so that if a man had landed property worth £1000 a-year, and if he mortgaged it for 100 years to the State, the State might issue notes to him to the amount of £100,000, which were to be declared equal in value to silver, and made legal tender for their nominal value. Now, if this theory be true, there is no good reason why land should be pledged for only 100 years; why not for one million years? which would do the thing in a somewhat more magnificent scale. But what need of stopping there? Why not pledge it to all eternity? And then every inch of the property might be covered with paper notes, and they might be piled high enough to reach the Moon, where the deviser of this scheme would probably find his lost wits. Law properly points out that the fallacy of this theory was, that Chamberlain assumed that the value of £100 to be paid 100 years hence is still £100. He says, "No anticipation is equal to what already is, a year's rent now is worth fifteen year's rent fifty years hence, because that money lent out at interest by that time will produce so much." But says Mr. Macaulay,* "On this subject Chamberlain was proof to ridicule, to argument, even to arithmetical demonstration. He was reminded that the fee simple of land would not sell for more than twenty years' purchase. To say, therefore, that a term of 100 years was worth five times as much as a term of twenty years, was to say that a term

* Hist. of England. Vol. IV. p. 496.

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of 100 years was worth five times the fee simple; in other words, that 100 was five times infinity. Those who reasoned thus were refuted by being told they were usurers; and it should seem that a large number of country gentlemen thought the refutation complete."

10. Law's theory was to calculate the value of the fee-simple of the land at twenty years' purchase, and to coin notes to the value of that amount, and advance them to the owner of the land. This plan, therefore, had a limit, however absurd it was. It was bounded in the first instance by the value of the land expressed in silver money, but Chamberlain's had positively no limit at all to carry it out to its full length; the advance might be made to infinity, consequently, in mathematical language we should say that Chamberlain was *infinitely* more mad than Law.

11. Law shewed that notes issued upon Chamberlain's plan would immediately fall to a heavy discount; but yet he says, that though £500 of these notes were only equal to £100 in silver, yet the nation would have the same advantage by that £500 in notes as if an addition of £100 had been made to the silver money.

"*So far as these bills fell under the value of the silver money so far would exchange with other countries be raised.* And if goods did not keep their price, *i. e.*, if they did not sell for a greater quantity of these bills equal to the difference betwixt them and silver, goods exported would be undervalued, and goods imported would be overvalued.

"The landed man would have no advantage by this proposal *unless he owed debt*, for though he received £50 of these bills for the same quantity of victual, he was in use to receive £10 silver money; yet that £50 would only be equal in value to £10 of silver, and purchase only the same quantity of home or foreign goods.

"The landed man who had his rent paid him in money, would

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be a great loser, for by as much as these bills were under the value of silver, he would receive so much less than before.

"The landed man who owed debt would pay his debt with a less value than was contracted for, but the creditor would lose what the debtor gained.*"

Oh! that the philosophers of 1811 had only pondered over this extract from John Law!

12. Law then shews that,

"Notwithstanding any Act of Parliament to force these bills, they would fall much under the value of silver; but, allowing that they were at first equal to silver, it is next to impossible that two different species of money shall continue equal in value to one another.

"Everything receives a value from its use, and the value is rated according to its quality, quantity, and demand. Though goods of different kinds are equal in value now, yet they will change their value from any unequal change in their quality, quantity, or demand.

"And as he leaves it to the choice of the debtor to pay in silver money, or bills, he confines the value of the bills to the value of the silver money, but cannot confine the value of the silver money to the value of the bills, so that these bills must fall in value as silver money falls, and may fall lower, may rise above the value of these bills, but these bills cannot rise above the value of silver."

13. Law succeeds with great skill and acumen in exposing the wild insanity of Chamberlain's plan, and truly predicts the results which would follow from it, or, at least some of them, for there are many important ones he has omitted. The exact consequences which he predicted were manifested in Ireland and England a century later, and the sentences we have quoted, if we did not know their origin, might have been supposed to have

* Money and Trade Considered. p. 151.

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been written to rebuke the folly of the directors of the banks of Ireland and England, and the mercantile witnesses of 1804 and 1810. But having demolished Chamberlain, he comes to his own proposal, which he says is "to make money of land equal to its value, *and that money to be equal in value to silver money, and not liable to fall in value as silver money falls.*" He then says, "ANY GOODS THAT HAVE THE QUALITIES NECESSARY IN MONEY, MAY BE MADE MONEY EQUAL TO THEIR VALUE. Five ounces of gold is equal in value to £20, and may be made money to that value; an acre of land, rented at two bolls of victual, the victual at £8, and land at twenty years' purchase, is equal to £20, and may be made money equal to that value, for it has all the qualities necessary in money."

14. In this sentence is concentrated the whole essence of that eternal delusion, so specious and plausible, and so fatal, which we designate as LAWISM. It is indeed nothing but the stupendous fallacy *that money represents commodities, and that paper currency may be based upon commodities.* This fatal delusion is deeply prevalent in the public mind at the present day, and probably there are few persons except those who have studied the true philosophical principles of monetary science, whose views are not deeply tainted with this infection. We would venture to hazard an assertion that nineteen persons out of twenty who speak on the subject of currency—certainly that proportion of the public press who write upon it—speak and write nothing but the rankest and most odious LAWISM. No man who does not thoroughly purge his mind of this noxious weed, can ever attain the remotest glimpse of true monetary science. MONEY DOES NOT REPRESENT COMMODITIES AT ALL, BUT ONLY CAPITAL, THE ACCUMULATION OF LABOR, WHICH

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HAS NOT YET BEEN GIVEN FOR COMMODITIES. It would startle many of the most famous writers on political economy, who probably hold the name of Law in abhorrence, and flatter themselves that they are not like him, to be told that they are unconscious disciples of Law. Every man who thinks that there is any necessary relation between the quantity of money in a country and its commodities, is a *Lawist.* Take the case of a private individual. Is there any necessary relation between the quantity of money he retains and the quantity of commodities he purchases? The quantity of money he has is just the quantity of capital—of services due to him—which he has *not yet* parted with for something else. It is the quantity of power of purchasing commodities he has over and above what he has already expended; and the quantity of money a nation possess is simply the quantity of accumulated industry it possesses over and above all commodities, but they have no relation whatever to each other. Now, the value of money depends upon its relation to *capital* and not to commodities; if "money" or "currency" increases faster than capital, it immediately causes a diminution in its value. If capital increases faster than money or currency, then the value of money is raised. The infallible consequence, therefore, of an increase of currency without a corresponding increase of capital, is to change the existing proportion between capital and currency, and to cause a depreciation of the latter commensurate to the changed proportion. The necessary and inevitable consequence, then, of issuing vast quantities of paper currency on the assumed value of property, is simply to cause a total subversion of the foundation of all value and of all property, and to plunge every creditor into irretrievable ruin.

15. In fact, a moment's consideration will shew that

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the theory of basing a paper currency on commodities, involves this palpable contradiction in terms, THAT ONE CAN BUY COMMODITIES AND ALSO HAVE THE MONEY AS WELL. When a man buys commodities with money, he gives either a portion of his own industry represented by that money, or a portion of some one else's industry who gave him the money. But it is quite clear *that he cannot buy the commodities and keep his money as well.* It is exactly the same with a nation. A nation cannot buy commodities and have the money it bought them with as well, which is the principle necessarily involved in issuing paper currency as the representative of commodities. But the money of the nation is the mode and form in which the accumulation of industry which has not yet been spent in commodities is preserved; and if a nation wants other commodities besides what it has got, it must pay for them either with money, or with the goods it has already. The idea of basing paper currency upon commodities is just as wild and absurd as if England were to sell her cotton goods to America for coin, and then demand back her cotton goods. The only result of such an attempt carried out into practice must be the most tremendous convulsions, and destruction of credit and all monetary contracts.

16. The most striking confirmation of the incontrovertible truth of the preceding remarks is afforded by the examples of the Mississippi scheme in France—the Ayr Bank in Scotland—the creation of the assignats during the French revolution—and the great monetary convulsions in America in 1837-9. The English Parliament was beguiled into giving a half approval to the insanity of Chamberlain; but fortunately it went no further, or the Mississippi scheme would have been anticipated in 1694. Law sought to tempt the Parlia-

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ment of Scotland with a similar dazzling vision; but they had the superior wisdom to turn a deaf ear to it altogether. His plan was that the whole of the value of the land in Scotland, at twenty years' purchase, should be turned into an inconvertible paper currency, and issued by a parliamentary commission! Law, having seen through the prodigious folly of Chamberlain, was so blind to the similar constitution of his own bantling, that he says, "The paper money proposed will be equal in value to silver, for it will have a value of land pledged equal to the same sum of silver money that it is given out for. * * * This paper money will not fall in value, as silver money has fallen, or may fall!!"

17. To give a full account of the banking career of Law in France, would exceed our limits, and an imperfect account would do little good; and there are so many other sources where ample details of it can be had, that we must content ourselves with referring to them. The next conspicuous example and catastrophe—for they are synonymous—of Lawism, was the Ayr Bank, in Scotland. We have stated in Chapter VII., that the Scotch banks had got themselves into a very perilous position by an undue expansion of credit, out of which they gradually worked themselves by stringent measures. Then as now, schemers thought it was the duty of the banks to lend for as long a time, and to as great an extent, as they might wish to borrow,* and they were very indignant when the banks declined to act accordingly. In the midst of this clamor, a new bank was formed for the express purpose of accommodating the demands of every one who wished to borrow, and especially of promoting agricultural improvement. The Duke of Hamilton and

* Adam Smith. Wealth of Nations, Book II., Chap. 2.

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other great noblemen and landed proprietors, were the chief proprietors and promoters of it; and it was set up under the title of Douglas, Heron and Co., in Ayr. The estates of the proprietors were worth several millions, and because of this, they entertained the fatal delusion, that they might issue paper to any amount up to that value, without its being depreciated. Accordingly, Adam Smith says, that it made scarcely any distinction between real and accommodation bills, but discounted them both with indiscriminate profusion. "It was the avowed principle of this bank to advance upon any reasonable security, the whole capital which was to be employed in those improvements, of which the returns are most slow and distant, such as the improvements of land. To promote such improvements, was even said to be the chief of the public-spirited purposes for which it was instituted." We have seen it stated somewhere, that the bank was insolvent within a fortnight after it opened. This enormous increase of currency, compared to capital, had its inevitable effect; its notes began to diminish in value, from excessive abundance, and they were returned on it for payment. Their gold and silver was insufficient to meet the demand for exchanging the notes, and they adopted the plan of drawing upon London, and when the bill became due, paying it, together with interest and commission, by another draught upon the same place. The enormous and known wealth of its proprietors helped to sustain the credit of the notes for some time; but the bank was fairly in the Maelstrom, and at the end of two years, stopped payment, with liabilities amounting to £800,000. After several years, all the creditors were paid in full out of the assets of the shareholders. So terminated the second practical example of Lawism. Nevertheless, this experiment was not without its residuum of

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benefit. The greater part of the issues were made for the special purpose of promoting agricultural improvements, and they were applied to that purpose, and the prodigious advance made by Ayrshire in agricultural improvements, dates from that time. It is not, therefore, that *all* advances for such purposes are to be condemned; but the fatal and radical vice of Lawism is, that it extends the limits to which such advances may be made, to a degree far beyond what is justified by the very nature of monetary science; and that as soon as this natural limit is passed, the paper suffers a rapid and unavoidable depreciation. No one saw more clearly than Law, that capital and credit must increase and decrease together; but what he failed to see was, that these paper issues were nothing but *credit*, although he was deluded into the idea that they were actual value.

18. The third great outburst of Lawism took place in the same country that witnessed his first exploits. In preparation for it, Law's "Money and Trade Considered" was translated into French in 1789, as if all the memory of the great catastrophe sixty-nine years before had perished. The National Assembly had confiscated the property of the Church, but instead of yielding a revenue, it cost the nation £2,000,000 a year more than it produced, and in a few years augmented the public debt by £7,000,000.* The property seized was valued at £80,000,000. The expense of the management required that it should be sold, but no purchasers could be found; for all persons in that terrible political earthquake wished to have their property in as portable a shape as possible, and few were willing to trust to a revolutionary title. In this dilemma, the municipalities agreed to purchase a

* Alison's Hist. of Europe. Vol. II.. p. 147. 7th Edition.

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considerable portion of it in the first instance, and resell it in smaller portions to individuals. But as there was not specie enough to complete the sale, they issued their promissory notes to the public creditor, to pass current until the time of payment came; but when they became due, the municipalities had no means of discharging them. To meet them, the Assembly, in the spring of 1790, authorized the issue of £16,000,000 of assignats on the security of the land. In September, further issues to the amount of £32,000,000 were authorised. These additional issues were warmly opposed by Talleyrand and other leaders, who predicted their depreciation; but Mirabeau strongly supported them, denying the possibility of their depreciation, saying:

"It is vain to assimilate assignats secured on the solid basis of these domains to an ordinary paper currency possessing a forced circulation. They represent real property, the most secure of all possessions, the land on which we tread. Why is a metallic circulation solid? Because it is based on subjects of real and durable value, as the land, which is directly or indirectly the source of all wealth. Paper money, we are told, will become superabundant; it will drive the metallic out of circulation. Of what paper do you speak? If of a paper without a solid basis, undoubtedly; if of one based on the firm foundation of landed property, never. There may be a difference in the value of circulation of different kinds; but that arises as frequently from the one which bears the higher value being run after, as from the one which stands the lower being shunned—from gold being in demand—not paper at a discount. There cannot be a greater error than the terrors so generally prevalent as to the over-issue of assignats. It is thus alone you will pay your debts, pay your troops, advance the Revolution. Reabsorbed progressively in the purchase of the national domains, this paper-money can never become redundant, any more than the humidity of the atmosphere can become excessive, which descends in rills, finds the rivers, and is at length lost in the mighty ocean."

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19. Although these assignats bore 4 per cent. interest, they had become depreciated in June, 1790; by June, 1791, they had lost one-third of their value. In September, 1792, further issues were decreed. The two preceding Assemblies had authorised assignats to the amount of 2,700,000,000 francs, equal to £130,000,000, to be fabricated, of which only 200,000,000 francs remained unspent. On the 11th of April, 1793, the Convention decreed six years' imprisonment in chains to anyone who bought or sold assignats for any sum in specie different to their nominal value, or made any difference between a money price and a paper price in payment of goods. Vain effort! In June the assignat had fallen to one-third of its value, and in August to one-sixth. The exchange with London fell exactly in a corresponding ratio with the depreciation of the assignat at home. In June, 1791, it fell to 23; in January, 1792, to 18; in March, 1793, to 14; in June, 1793, to 10; on the 2nd of August, it was as low as 4¼; on the 18th of October, it had risen to 8; but after that, it ceased to be quoted at all.* Cambon, the Minister of Finance, proposed a further immediate issue of 800,000,000 of francs, equivalent to about £33,000,000, in addition to the quantity already issued. The public domains he calculated at £350,000,000. Hence, upon the Theory of Law and Mirabeau, there was an ample margin, and the assignats should not have been depreciated below the value of silver; and, in fact, according to them, it was impossible they should. Wonderful commentary upon the wisdom of the philosophers who maintain that if a paper currency only represents *value*, it cannot be depreciated!

* Report of Committee of Commons on Resumption of Cash Payments, 1819, p. 288.

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20. We must refrain from detailing the terrible misery caused by the forcible issues of assignats, which were legal tender at their nominal amount, the destruction of debts, the famine from the scarcity of provisions, the laws of the maximum, the penalty of death enacted against all who should keep back their produce from the market. All specie disappeared from the country and from circulation; those who possessed any, deeming it not secure from revolutionary violence, exported it to London, Hamburgh, Amsterdam, and Geneva. But many persons stoutly maintained, in pamphlets, that it was not the paper which was depreciated, but the specie which had risen.

21. The intolerable misery caused by this state of things caused the government which succeeded the Reign of Terror to make an attempt to withdraw a portion of the assignats from circulation, by *demonetizing* them; that is, depriving them of their quality of money, and forcing their holders to receive payment in land for them. But when a man wanted to buy food to eat, what was the use of giving him land? The report that a portion of the assignats were going to be demonetized sent down their value still lower, and a decree against it was obliged to be passed, to appease their holders.* All sorts of plans were devised to withdraw them from circulation; lotteries, tontines, a land bank, where they were to be lodged, and bear 3 per cent. interest. But the constant issue of them, required for the necessary payments of the State rendered all such attempts useless.

22. In January, 1796, the assignats in circulation amounted to forty-five milliards, or about £2,000,000,000, and the paper money had fallen to one-thousandth part

* Thiers. Hist. de la Revolution, Vol. VII. p. 255. Edit. 1832.

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of its nominal value. The Government then determined to issue *territorial mandates* at the rate of 30 assignats to one mandate, which were to be exchangeable directly for land, at the will of the holder, on demand. The certainty of obtaining land for them made them rise for a short time to 80 per cent. of their nominal value; but necessity compelled the Government to issue £100,000,000 of these mandates secured upon land supposed to be of that value. This prodigious issue sent the mandates down to nearly the same discount as the assignats were, and consequently, as one mandate was equal to 30 assignats, the latter had fallen to nearly the thirty-thousandth part of their nominal value. At length, on the 16th of July, 1796, the whole system was demolished at a blow. A decree was published, that every one might transact business in the money he chose, and that the mandates should only be taken at their current value,* which should be published every day at the Treasury. Two days afterwards, it was decreed that the national property remaining undisposed of should be sold for mandates at their current value. As a matter of course, the public creditors received payment of their debts in the same proportion.

23. No sooner, however, was this great blow struck at the paper currency, of making it pass at its current value, than specie immediately re-appeared in circulation. Immense hoards came forth from their hiding places; goods and commodities of all sorts being very cheap from the anxiety of their owners to possess money, caused immense sums to be imported from foreign countries. The exchanges immediately turned in favor of France, and in a short time, a metallic currency was permanently restored in France. And during all the terrific wars of

* Alison's Hist. of Europe, Vol VI., p. 76. 7th Edition.

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Napoleon, the metallic standard was always maintained at its full value.

24. One thing, however, we cannot help noticing. When describing the history and effects of the assignats, nothing can be more clear and correct than the narrative of Sir Archibald Alison. He sees clearly that a difference in value between the assignat and specie was truly a discount, or fall in the value of the paper. Thus, he says:*

"They for some time maintained their value on a par with the metallic currency. By degrees, however, the increasing issue of paper produced its usual effects on public credit; the value of money fell, while that of every other article rose in a high proportion, and at length, the excessive inundation of fictitious currency caused a universal panic, and its value rapidly sank to a merely nominal ratio. Even in June, 1790, the depreciation had become so considerable, as to excite serious panic."

Again, speaking of 1791:†

"Public and private credit had alike perished amidst the general convulsions. Specie had disappeared from circulation. The assignat had *fallen* to a third of its value,‡ and occasioned such an amount of ruin to private fortunes, that numbers already wished for a return to the ancient regime.

"While the unlimited issues of assignats, at whatever *rate of discount* they might pass, amply provided for all the present and probable wants of the treasury.§

"The vast and increasing expenditure of the Republic could only, amidst the total failure of the taxes, be supplied by the issue of assignats; and this, of course, by rendering paper money redun-

* Hist. of Europe, Vol. II., p. 210. 7th Edit. † Ibid., p. 305.

‡ This is not quite correct. At this time, the assignat had lost one-third of its value, not fallen to one-third of it.

§ Ibid., Vol. III., p. 251.

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dant, lowered its value in exchange with other commodities, and occasioned a constant and even frightful rise of prices.*

"All the persons employed by Government, both in the civil and military departments, were paid in the paper currency at par; but as it rapidly fell, from the enormous quantity in circulation, to a tenth-part, and soon a twentieth of its real value, the pay received was merely nominal, and those in receipt of the largest apparent incomes were in want of the common necessaries of life. Pichegru, at the head of the army of the North, with a nominal pay of 4000 francs a month, was in the actual receipt, on the Rhine in 1795, of only two hundred francs, or £8 sterling, in gold and silver.†

"The funds on which the enormous paper circulation was based, embracing all the confiscated property in the kingdom, or land, houses, and moveables, were estimated at fifteen milliards of francs, above £600,000,000 sterling; but in the distracted state of the country few purchasers could be found for such immense national domains; and therefore the security for all practical purposes was merely nominal. The consequence was that the assignat fell to one-twelfth of its real value; in other words, an assignat for 24 francs was worth only two francs; that is a note for a pound was worth only 1s. 8d.‡

"Foreign commerce having begun to revive with the cessation of the Reign of Terror, sales being no longer forced, the *assignat was brought into comparison with the currency of other countries*, and its enormous inferiority precipitated still further its fall.§

"By no possible measure of finance could paper money, worth nothing in foreign states, from a distrust of its security, *and redundant at home from excessive issue*, be maintained at anything like an equality with gold and silver. The mandates were in truth a reduction of assignats to a thirtieth part of their value; but, to be on a par with the precious metals, they should have been issued at one-thousandth part, being the rate of discount to which the original paper had now fallen.‖

"The excessive fall of the paper at length made all classes per-

* Alison's Hist. of Europe, p. 280. † Ibid., Vol. IV., p. 157.
‡ Ibid. Vol. IV. p. 394.
§ Ibid. Vol. V. p. 109. ‖ Ibid. Vol VI. p. 73.

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ceive that it was in vain to pursue the chimera of upholding its value. On the 16th July, 1796, the measures, amounting to an open confession of a bankruptcy which had long existed were adopted."

25. We have quoted these passages for the purpose of showing how completely Sir Archibald Alison, when he is speaking of the paper currency of France, acknowledges the great principle, that the value of the paper currency is only to be estimated at the value it will purchase in specie, that the measure of that difference between the real and the nominal value is its *depreciation*, and that a payment in coin at the current value of the paper currency is a NATIONAL BANKRUPTCY. Yet such is the amazing inconsistency of this writer, that when he comes to speak of the paper currency of England which exhibited exactly the same phenomena, only on a smaller scale, he resolutely denies that it was depreciated. When the French assignat had lost one-third of its value, compared to specie in 1791, he acknowledges that it was *depreciated*; when the Bank of England note in 1811 had lost one-fourth of its value compared to specie, it was not the note which had fallen, but gold that had risen!! When assignats were made legal tender in France at their nominal value, specie disappeared from circulation. When Bank of England notes were substantially legal tender in England, and had lost a quarter of their nominal value, specie disappeared from circulation. Sir Archibald Alison estimates the depreciation of the assignat by the difference between the current and the nominal value of the assignat; but when the Bullion Committee estimated the depreciation of the Bank note by the difference between its nominal and its current or market value, he reads a homily to them upon their ignorance and folly, talks of the "general delusion which so

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long had prevailed upon the subject, when it is recollected not only that the true principles of this apparently difficult, but really simple, branch of national economy which are now generally admitted,* were at the time most ably expounded by many men both in and out of Parliament, but that in the examination of some of the leading merchants of London before the Parliamentary Committee on the subject, the truth was told with a force and precision, which it now appears surprising any one could resist."† This truth which was told with such irresistible force and precision was, that twenty-seven was equal to twenty-one ! He then acknowledges that it was a national bankruptcy of the French government to pay its notes with a less amount of specie than their nominal value ; but nothing can exceed the bitterness of his invective against the Currency Act of 1819, which provided that the Bank of England should pay its notes at their full nominal value in specie. Just as if it was less a *bankruptcy* to pay 15s. in the pound than to pay 1s. in the pound. He sees clearly that in *France* the paper currency is to be estimated by the value of gold, but in *England* he maintains that gold is to be estimated by the value of the paper currency !! Just as if the eternal truths of science are different, on different sides of the channel, or that they are reversed according to the language they are expressed in!

26. Nothing would be more amusing, if it did not rather border upon the melancholy, than to observe the amazing inconsistency of Sir Archibald Alison when he speaks of the English and the French inconvertible paper

* We absolutely deny this. Nobody denies the truth of the Bullion Report who denies that 21 is equal to 27.

† Alison's Hist. of Europe. Vol. XIV. p. 72.

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currency. He fully allows that any difference between the nominal and the current value of the assignat was a *depreciation* of the assignat. He never dreams of saying that the paper assignat was the standard, and that the *coin* had risen in value. But in some remarkably wise lucubrations upon the question of What is a pound ? he says,* "In truth, a pound is an abstract measure of value just as a foot or a yard of length, and different things have at different periods been taken to denote that measure, according as the conveniency of men suggested. It was originally a pound weight of silver, and that metal was till the present century the standard in England, as it still is in most other countries. When gold was made the standard by the Bank being compelled by the Act of 1819 to pay in that metal, the old word denoting its original signification of the less valuable metal was still retained. During the war when the metallic currency disappeared, the pound was a Bank of England pound note—the standard was the paper—for gold was worth 28s. the pound from the demand for it on the continent." It is scarcely necessary to point out the ridiculous absurdity of this passage. The pound an *abstract* thing indeed ! Our ancestors had very few abstract ideas at all, and certainly an *abstract* idea of a pound was not one of them. They meant nothing abstract, but on the contrary, a very substantial *pound weight of silver bullion*, and nothing else. To say that a paper pound was the standard during the war, is a gross misrepresentation of the fact. Instead of a "promise to pay" on demand, the Bank note during the war was a "promise to pay specie six months after peace." It is not true that gold during the war was worth 28s. paid in *silver money*,

* History of Europe, 1815 to 1852, Vol. II. p. 379.

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but only in depreciated *Bank notes*. But Sir Archibald Alison admits that an excessive issue of paper would have depreciated the Bank note, but, he of course denies that the issues were excessive. Now, as a depreciation from an excessive issue could only be manifested by a continuous rise of gold above 28s. the pound, we should be obliged to him to explain in his next edition where the turning point would be at which the depreciation would commence. At what figure should we have to reverse our expression, and instead of saying that gold had risen, say that paper had fallen?

27. Such is a plain statement founded upon incontrovertible facts of the results of the greatest experiment the world ever saw of issuing a paper currency secured upon commodities or property—the most complete example of LAWISM. When the issues of assignats were at their height, they were certainly not anything equal to the value of the fee-simple of France expressed in silver money. And according to the predictions of Law and Mirabeau, it was a matter of impossibility that they should ever become depreciated, and what was the result? Even though the experiment was not carried out to its full extent, the value of the paper assignat sank to one 30,000th part of its value in silver! Such was the inevitable consequence of basing a paper currency upon property or securities, and such it ever must be, because, if such issues are once begun, there is no legitimate conclusion whatever until all the property in the country is coined into notes. Pass the legitimate limits of a circulating medium by one hair's breadth, and there is no logical conclusion but in the French assignats.

28. The last example we shall cite is the case of America. That country was unhappily deeply bitten with the currency mania of basing issues of paper on

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"securities." In most of the States the legislatures passed acts permitting any individual, or any banking associations, to issue notes to any amount upon depositing with a "public comptroller" securities of equivalent value. These "securities" might be public stock, or mortgages upon improved, productive, and unincumbered lands.* Now, as these "securities" remained the property of the vendors, and they might appropriate the revenues from them as long as payment of the notes was not demanded from the comptroller, people saw that they might derive a profit from the security as well as from the currency which represented its value. There was accordingly, a prodigious rush to deposit securities—an enormous issue of paper during the years 1834-5-6. The prices of everything rose immensely. The people of the Western States with their "pockets full of paper currency gave very large orders for goods to the merchants of New York, Boston, and Philadelphia, who duly executed them. The bills given for the purchases were payable in these eastern cities; and when the western debtors went to their own bankers for bills of exchange on these places in return for their own local currency, the bankers discovered that their home customers had bought more from the eastern cities than they had sold; that they had already drawn on the east for every dollar which the east was indebted to them, and could draw no more. The western merchants then sent their own currency notes to the eastern cities in payment, but, unfortunately for them, the merchants there had already paid all they

* A very graphic account of the currency vagaries of the United States is given in two articles of the "*Scotsman*," Nov. 21 and 24, 1855. See also The Progress of America, by John Macgregor, Esq., M.P. Vol. II. p. 1068.

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owed to the west, and nobody in New York or Philadelphia wanted western notes for any purpose of use, and nobody was disposed to travel 600 or 700 miles to request the cashiers of the Western States to pay their notes, or in those States in which security had been given to require the comptroller to sell the pledged securities and pay them the money produce. Moreover, every one knew that it was physically impossible in either case to obtain the amount in money, for there was no currency in which the pledged property when sold could have been paid, except *Bank* notes resting on securities, or on the mere promise of the banker."* In the meantime, the usual effects followed, specie disappeared from circulation. The extended paper issues led the Americans to order immense quantities of goods from Europe, and prices being very high from the bloated paper currency, they could send no goods in return to pay for them. For some time they sent over great quantities of their stock, but this became superabundant, and at last no one in Europe would buy it. It became necessary then, for them to pay their debts in specie, but specie there was none. In 1837, all the banks in America, without exception, stopped payment. The general suspension began at New York on the 11th May, and spread in every direction. In May, 1838, the New York banks resumed specie payments, which were followed by all the New England banks in August, 1838; this was followed by the banks in Philadelphia, and on the 1st January, 1839, the banks throughout the Union professed to do so. No sooner, however, were they set up again than they resumed the same wild operations on credit, and on 9th October, 1839, out of 850 banks in the Union, 343 sus-

* The *Scotsman*, Nov. 21, 1855.

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pended payment entirely, and 62 partially. On this occasion the New England banks were honorably distinguished, they had gathered wisdom, and out of 198 banks in New York, only four stopped; whereas, in the Southern and Western States about two out of three stopped. The United States Bank, with a paid-up capital of £7,000,000, was found to be utterly insolvent; its shares, which were at 123 dollars on the 14th August, 1838, were at 3 dollars in January, 1842. This was the fourth grand experiment of Lawism, pure and unadulterated on the most magnificent scale, and such was the result!

29. All ideas, therefore, of basing a paper currency upon property or commodities are essentially erroneous, and can have no other possible termination, if only carried out to their legitimate consequences, than what happened in France in 1796, and America in 1837-9. There is one species of property, however, which from its being more nearly confounded with money in the public ideas than any other, is supposed by many persons, who would repudiate any imputation of being disciples of Law, to be a sound basis for a paper currency. This property is public stock. A very prevalent idea is, that all banks of issue should give security by purchasing the public funds, and then deposit the stock with a government officer. But what is this but the wildest, rankest, and most odious LAWISM? The rule that is good for one is good for all. If the public funds are a proper basis for £1000 of paper currency, they must of necessity be a good basis to their whole extent. If one bank or banker is allowed to issue paper on the security of stock, every other one must be permitted to do the same, until the whole funded debt of Great Britain is coined into paper notes. If £100 of public debt is coined

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into £100 of notes, we must by an irresistible conclusion have £800,000,000 of public debt coined into an equal quantity of notes. The principles of basing a paper currency upon land, and upon the public funds, are absolutely identical, and equally vicious. To permit a man to *spend* his money in buying part of the public debt, and to *have* it as well in the form of notes, is as rank an absurdity as to permit him to spend it in land, and also have it as notes. The only advantage one has over the other is, that the funds are more easily convertible into money than land is. The same is true of a nation as an individual—that a nation can *spend* its money in destroying its enemies, and *have* it too as Bank notes, or "currency," is a wild and mischievous delusion.

30. The drift of these remarks is evident. The whole constitution of the Bank of England is fundamentally vicious. It is as complete an example of pure Lawism as the French assignats, or the American banks. It gave its original capital to Government, and then was allowed to have it in the form of notes. The first public debt was Bank of England stock, and for several of the early additions to its capital, *i. e.*, the public debt, it was allowed to issue notes to the exact amount of its capital, and this permission still continues. Now, if this system had been carried out to its legitimate conclusion, the national debt and the capital of the Bank of England would have been the same thing, and the paper notes of the Bank would have been nearly £800,000,000. When it was founded the nation thought they might spend £1,200,000 in destroying the French, and have them too as Bank notes. But if this principle had been carried out much further it would have ended in fatal and universal ruin.

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31. The fundamental principle of the Bank of England was, therefore, as erroneous as that of the Mississippi scheme, the Ayr Bank, the French assignats, or American banking; but, as in all these cases, the mischief is not developed until the issues exceed a certain limit, the radical vice of the Bank of England has been prevented from producing its inevitable consequences by rigidly restraining it to that single instance. But then, this vice was kept down by a most unjustifiable monopoly, which was the chief cause of those tremendous banking catastrophes which have desolated England, and which has, until of late years, prevented a sound banking system being founded.

32. We trust that the preceding remarks are absolutely conclusive as to the fundamental fallacy of Lawism of all forms and descriptions, by which we mean, the theory of basing issues of paper on property, or commodities, whether the public funds, or land, or any moveable goods. We must now examine a much more subtle and plausible theory, which was the guiding principle of the Bank of Ireland and the Bank of England during the restriction, and which was adhered to by a large majority of the commercial world; nor are we aware of any refutation of it on philosophical grounds, except the one in the Bullion Report, which we shall quote and comment upon. This theory was first prominently brought forward before the Committee on the Irish Currency, in 1804, and we have already quoted it at page 127. The Bullion Committee express it in the following words:

"The Bank directors, as well as some of the merchants who have been examined, shewed a great anxiety to state to your Committee a doctrine of the truth of which they professed themselves to be most thoroughly convinced—that there can be no possible excess

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in the issue of Bank of England paper, so long as the advances in which it is issued are made upon the principles which at present guide the conduct of the directors; that is, so long as the discounts of mercantile bills are confined to paper of undoubted solidity, arising out of real commercial transactions, and payable at short and fixed periods."

33. The germ of this doctrine is to be found in the extract from Adam Smith, which we have already quoted.* It was first prominently brought forward as a practical rule by the Irish Bank Directors, in 1804. The Committee of that year did not attempt to deal with this theory; but the witnesses examined before the Bullion Committee re-produced it, and alleged that it was the principle by which the Bank of England regulated its issues during the restriction. The directors of the Bank allowed that, before the restriction, they were compelled to regulate their issues by a drain of gold on them for exportation; when that check was removed, the controlling power was lost; and, indeed, one of the directors stated that, in his opinion, that was one great merit of the restriction; that they were no longer obliged to adhere to their former rules. The Bullion Committee, however, decidedly condemned these opinions. They say, speaking of the consequences of the Restriction Act:

"By far the most important of these consequences is, that while the convertibility into specie no longer exists, as a check to an over-issue of paper, the Bank directors have not perceived that the removal of that check rendered it possible that such an excess might be issued by the discount of *perfectly good bills*. So far from perceiving this, your Committee have shewn that they maintain the contrary doctrine with the utmost confidence, however it may be qualified occasionally by some of their expressions. That this doc-

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trine is a very fallacious one, your Committee cannot entertain a doubt. The fallacy upon which it is founded, lies in not distinguishing between an advance of capital to merchants, and an additional supply of currency to the general mass of circulating medium. If the advance of capital only is considered as made to those who are ready to employ it in judicious and productive undertakings, it is evident there need be no other limit to the total amount of advances, than what the means of the lender and his prudence in the selection of borrowers may impose. But in the present situation of the Bank, entrusted, as it is, with the function of supplying the public with that paper currency which forms the basis of our circulation, and at the same time, not subjected to the liability of converting the paper into specie, every advance which it makes of capital to the merchant in the shape of discount, becomes an addition also to the mass of circulating medium. In the first instance, when the advance is made by notes paid in discount of a bill, it is undoubtedly so much capital, so much power of making purchases, placed in the hands of the merchant who receives the notes; and if these hands are safe, the operation is so far, and in this, its first step, useful and productive to the public. But as soon as the portion of circulating medium in which the advance was thus made, performs, in the hands of him to whom it was advanced, this, its first operation as capital—as soon as the notes are exchanged by him for some other article which is capital, they fall into the channel of circulation, as so much circulating medium, and form an addition to the mass of currency. The necessary effect of every such addition to the mass is to diminish the relative value of any given portion of that mass in exchange for commodities. If the addition were made by notes convertible into specie, this diminution of the relative value of any given portion of the whole mass would speedily bring back upon the Bank which issued the notes as much as was excessive. But if by law they are not so convertible, of course this excess will not be brought back, but will remain in the channel of circulation, until paid in again to the Bank itself, in discharge of the bills which were originally discounted. During the whole time they remain out, they perform all the functions of circulating medium, and before they come to be paid in discharge of those bills, they have already been followed by a new issue of notes, in a similar

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operation of discounting. Each successive advance repeats the same process. If the whole sum of discounts continues outstanding at a given amount, there will remain permanently out in circulation a corresponding amount of paper; and if the amount of discounts is progressively increasing, the amount of paper which remains out in circulation over and above what is wanted for the occasions of the public, will progressively increase also; and the money prices of commodities will progressively rise. This progress may be as indefinite as the range of speculation and adventure in a great commercial country."

34. Such is the reasoning of the Bullion Report, to shew the fallacy of the rule of the directors. We are not aware of any other attempt to refute it, so elaborate as the one given. The conclusions are perfectly just, but the expressions are in some respects ambiguous, in some, inaccurate; and altogether, the reasoning is inadequate to effect its purpose of demonstrating the fallacy of the doctrine. In the first place, the expression "good bills" is one which we shall shew is full of fallacy. The Report has further been clouded by the false distinction between "capital" and "circulating medium." Again, it says the necessary effect of every addition to the mass of the currency, is to diminish the value of the whole, which assertion is entirely erroneous, because the value of the currency is always proportionate to the work which it has to do; and it is only a change in the proportion between the currency and the work that it has to do, that causes a change in its value. The Committee were further in great error in supposing that so small an amount as could be added to the circulating medium in so short a time as during the currency of the bills that were discounted could have any general effect on prices.

35. We shall find that by starting from our fundamental definition of currency, as transferable debt, and

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that the value of the currency depends upon the quantity of transferable debt which it represents, the fallacy of this theory can be demonstrated with great ease and simplicity, and the mischievous consequences which followed from it explained. When the merchant A, comes to the Bank, to *discount* the acceptance of B, it is a sale of the debt to the Bank. The Bank buys a debt payable at a fixed time after date, with its notes, which are so many small debts payable to bearer on demand, while the notes are convertible. The transaction is simply an exchange of debts. At the appointed time, it is B's duty to take a quantity of currency to the Bank, and discharge his debt. He does this, either in coin, or in the Bank's own notes. If he pays his own debts by the Bank's notes, it is simply a re-exchange of debts between him and the Bank; he extinguishes his own debt to the bank, and at the same time an equal quantity of the Bank's debt is taken out of circulation, and extinguished; consequently, the proportion existing previously between the currency and the quantity of debt it represents, remains unaltered. If the merchant discharges his debt partly in coin, and partly in Bank notes, or wholly in coin, the same result follows; the notes which remain out in circulation still represent the same amount of capital. But let us suppose that the acceptor *fails* to meet his engagement, and cannot pay his debt. Then the debt due *to* the Bank is lost and extinguished; but the debt *against* the Bank remains; and the Bank, whilst the notes are payable to bearer on demand, must pay this debt out of its remaining capital. Still, however, though this is loss of capital to the Bank, as the notes are taken out of circulation, the value of the notes remaining in circulation will not be affected. But now let us suppose the notes to be *inconvertible,* then, as before, if the acceptor pays the debt, the notes will be

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taken out of circulation, and extinguished simultaneously with the debt, which they purchased, and the value of those remaining in circulation will not be altered. But suppose that the acceptor fails, and cannot pay his debt, then that debt is extinguished, but the notes which purchased it remain in circulation, and are a mere addition to the circulating medium already existing, without any corresponding addition to the debt or capital which it represents. Every such operation, therefore, alters the proportion between the currency and the capital, or the debt it represents; and though, no doubt, a few unsuccessful operations of this sort would not have any sensible effect in changing its value, yet a repeated succession of them must necessarily do so ultimately, just as adding a drop to water in a bucket may not perceptibly increase the height of the water, yet a continued series of drops will at length cause the water to overflow the bucket; so a continued series of such operations under an inconvertible paper currency must necessarily result in a serious diminution in the value of the whole.

36. But it may happen, that even though the merchant pays his debt, and no loss of capital ensues to the Bank, yet it may be a loss of capital to him. Thus, when he bought the goods on credit, and gave his acceptance for them, which was purchased by the Bank, he meant to employ those goods as *capital*, that is, he bought them merely for the purpose of selling them again, with a profit. If he succeeds in this object, and sells them to advantage, he pays his acceptance out of the proceeds realised by the goods, and his capital is increased more or less, according to the greater or less advantage he sells them at. But if he has made a miscalculation, and sells the goods at a loss, he must still make good his debt to the Bank out of his remaining

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capital; and such a transaction is a loss of capital to him. But every loss of capital to an individual is a loss of capital to the whole community. And the great general result to the community is absolutely the same, whether the loss of capital falls upon the individual, or upon the Bank. The capital of the nation is diminished, but the currency remains the same. Consequently, every unsuccessful operation in trade alters the proportion between the quantity of the currency and the quantity of the debt, or the capital it represents; and, therefore, every unsuccessful operation necessarily tends to diminish the value of the whole currency, unless some means can be devised by which a quantity of currency can be removed from circulation, corresponding to the loss of capital. Now, the diminution in the value of the currency inevitably shews itself in process of time, by a general rise in prices. It may do so gradually and imperceptibly at first—in the hourly variations of prices, it may not, perhaps, be perceived at first; just as when the waves are breaking upon the shore, it is impossible to tell whether the great tide is advancing or receding; but if it continues for any length of time, all traders begin to feel it instinctively. It is impossible, perhaps, to point out the precise influence in any particular transaction; but yet, it makes itself felt in commercial operations, by a general rise in prices. Now, when this is the case, when the currency is made of a material which has an universally acknowledged value, nature herself provides the remedy. When commodities rise in price in this country beyond their prices in foreign countries, besides the cost of transporting them here, they will be imported, and the extra quantity thrown upon the market diminishes their price, both by altering the ratio of supply and demand, as well as by removing the quantity of currency necessary to

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pay for them, from circulation, until the general equilibrium is again restored between prices, currency, and capital. But if the currency be made of a material which has no value whatever, like paper, this great restoring process of nature cannot take place. The quantity of currency remains the same, while the capital it represents is diminished. The consequence is, a general diminution in value of the whole currency—all the portion of the currency which has intrinsic value is driven out of circulation; then follows a great rise in the market price of bullion, and as a necessary consequence, a fall in the foreign exchanges.

37. The foregoing considerations enable us to affix a definite and specific meaning to a phrase which is now in constant use, but which we have never yet seen any attempt to explain. All discussions upon currency are full of misty and vague expressions about "excessive issues," "over-issues," but we have never seen any attempt to define what an "over-issue" is. Now, "over issues," in general, must consist of specific instances of over-issue in particular cases. Where is the use or the sense of casting vague and indefinite accusations against the Bank of making "excessive issues" unless the person who makes the charge is prepared to point out specifically which issues are excessive, and which are not? Now, the meaning which we affix to an "excessive issue," or an "over-issue" is an advance made upon an unsuccessful operation, or the "purchase of a bad debt." Every quantity of currency advanced to promote an unsuccessful operation, or which purchases a bad debt, alters the proportion between the currency and the debt, or the capital it represents. Each specific instance, then, of such an operation is an "over-issue," and the expression "over-issue" or "excessive issue" has no other meaning.

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38. The foregoing considerations also show the complete fallacy of the theory we have been discussing of issuing notes upon "good bills." In a banker's sense a "good bill" means simply a bill which is duly paid by the proper party at maturity. It is not the smallest consequence to him whether the transaction out of which the bill originated is a profit or a loss to the person who incurred the obligation, as long as he is paid. But if the expression "good bill" be taken in a more extended and philosophical sense to denote a bill upon which it is safe to issue currency, it is a very different matter indeed, for then a "good bill" can only mean one generated by a successful operation.

39. It is not a little remarkable that Adam Smith is the parent of both the theories of paper currency, which have imposed so extensively on the banking and mercantile world, and that within a very few pages of each other. The one theory, that which the Bank directors and merchants adopted in 1810, the other which is the huge currency fallacy of the present day. The two theories are utterly irreconcilable and inconsistent with each other; the one necessarily leads to the most excessive over-issues and depreciation of the paper currency, the other, if carried out in all its integrity, would be utterly destructive to the business of banking. These two theories thus springing up close to each other, and then pursuing diametrically opposite directions, are something like the Rhine and the Rhone, which rise within a few miles of each other and then separate, one flowing due South and the other due North.

40. What then is the only true foundation of a paper currency? Every consideration of sound reasoning and science proves that the only true foundation of a paper currency is that substance which is the legal or the

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universally accepted representative of DEBT, *i. e.*, of services due, or CAPITAL, whatever that substance be. Now, among all civilized nations gold or silver bullion is the acknowledged representative of debt, or capital. Consequently, gold or silver bullion is the only true basis of a paper currency. Among all civilized nations the *weight of bullion is the acknowledged measure of value*, and consequently, bullion is the only true basis of the representative of value. Many unthinking persons declaim against the absurdity of founding a paper currency upon the *commodity* of gold bullion rather than any other commodity, such as wheat, or silk, or sugar. But it is not as a *commodity* that bullion is the basis of a paper currency, but as the substance, which is the accepted representative of *debt*, or capital. It would be perfectly possible to make a yard of broadcloth the representative of debt, and the measure of value; then a yard of broadcloth would be the only true basis of a paper currency, and to issue paper upon the basis of bullion would, in such a case, be as improper as to issue paper on the basis of broadcloth under existing circumstances. But all nations are agreed that bullion is better fitted by nature for such a purpose than broadcloth; and, consequently, as it seems to be the substance pointed out by nature herself for representing debt, it is the substance which forms the only true basis of a paper currency.

41. Bullion, then, as the symbol of capital is not only the sole proper basis of a paper currency, but is the only true regulator of its amount. As all paper currency is a "promise to pay" gold or silver bullion at some definite time, it is quite evident that the "promises to pay" floating in a nation must bear some proportion in quantity to the actual quantity of the bullion. It is quite impossible to fix any definite proportion, because

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that depends upon a multitude of peculiar circumstances. Experience is the only guide on the subject.

42. Capital and credit, or money and promises to pay money, then, form the only true circulating medium or currency, and they are its limits. If the limits of capital and credit are once trangressed, we plunge at once into the dread abyss of Lawism, and there is no logical goal till we arrive at the assignats of 1796, or the issues in America in 1837; and even these did not reach the full limits allowed by the theory. It is impossible to exceed the boundaries of capital and credit by a single iota, without involving this absurdity—*that we can buy a thing and keep the price of it as well.*

43. Capital and credit, then, must always increase and decrease together. If a man's real capital is reduced from £1000 to £100, it is quite clear that he cannot safely keep in circulation as many "promises to pay" as when he had £1000, and if his real capital is leaving him, he must reduce his liabilities in a similar proportion. If he chooses to spend £500 in buying commodities such as corn, it is quite clear he cannot spend the money, buy the commodity, and have the price as well. Now, what is true of a single individual is equally true of a bank, or of a nation. When an ordinary bank feels a drain upon its bullion, it must reduce its liabilities, its "promises to pay," or else the ruin of that bank is certain. Now, some people think that though this must be true of a private bank, yet it is the reverse of true applied to the Bank of England, and that as its bullion *decreases*, it ought to *increase* its issues. Strange infatuation!

44. The operation of reducing "issues" or "advances" is always one which will excite much complaint, and requires to be done with much delicacy; and, indeed,

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the grand problem in regulating the paper currency is to discover the true mode of acting upon it, so as on the one hand to maintain always its uniformity in value with the coin it represents, and on the other not to contract it too suddenly and violently, and without giving the public sufficient warning to enable them to reduce their liabilities in proportion.

45. From the amazing confusion of language and thought which pervades almost all treatises on monetary science, the plain and obvious method of controlling the paper currency has almost entirely eluded observation. No person who apprehended the true nature of banking, and expressed it in simple language, could fail to see the natural controller. The main business of commercial banking is discounting mercantile bills—that is, buying debts. Discounting a bill for a merchant is not *lending* him money but *buying* a debt due to him; and the price of such debts must follow exactly the same laws as the price of corn, or any other article. If money is very scarce and wheat very abundant, the price of wheat must fall; if money is very abundant the price of wheat will rise. The price of debts obeys the same rules. If capital becomes very scarce the price of debts must fall, *i. e.*, the discount must rise. If capital becomes abundant, the price of debts will rise, *i. e.*, the discount will fall. The price of debts, then, must follow the same great laws of nature that the price of wheat does. Now, does not every man of common sense know that it is the most foolish and insane thing to try to control the price of wheat? As we have shown in the introduction, it is not the fluctuation of the price of wheat that is the evil, but it is only the *sign* of the evil. The real evil is the change in the proportion of the demand and supply, and

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the fluctuation of the price is the grand natural corrector of the evil. Does not every one know that a high price of corn is the way to *attract* corn where it is deficient, and a low price the way to *repel* it from where it is already too abundant? Does not every one of common sense know that it is the most fatal folly to force down the price of wheat when there is a real scarcity, and to sell it below the price it would naturally attain? Can any course be more suicidal?

46. Now, apply all the arguments which suggest themselves so irresistibly in the case of wheat to the case of credit, or the purchase of debts, and the same results follow. The same great law of nature operates to preserve the due proportion between capital and credit, and any interference with this great law must necessarily be attended with the same evil consequences, as an interference with the natural price of wheat. And yet, almost all legislation up to a very recent period, and almost all writers on political economy, and too many of the commercial world, are in a perverse combination to thwart this great law of nature, and attempt to keep the rate of discount, or the price of debts, fixed at a uniform scale !

47. While, therefore, the greater part of commercial complaints are levelled against variations in the rate of discount as the great evil, the truth is, it is only the *sign* of the evil. The real evil is the altered proportion between capital and credit, and a variation in the rate of discount is the grand natural corrector of the evil. To attempt to keep the rate of discount uniform, is to thwart and contravene the laws of nature just the same as an attempt to fix the price of wheat. Like all true laws of nature, the simplicity, beauty, and perfection of its action is marvellous, and it produces a multitude of results which are not perhaps very obvious at first. If capital is

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leaving the country and becoming scarce compared to credit, every principle of nature shews that the value of money must rise, *i. e.*, the rate of discount must rise; and this has a tendency to prevent the outflow of bullion and to attract it from abroad ; on the other hand, if capital be flowing into the country and likely to become too abundant compared to credit, a fall in its value, or a fall in the rate of discount, *repels* it from the country. If a nation be visited with a great failure of the crops, it can only buy such food from foreign countries with its commodities or its money, it cannot send its credit in payment abroad. Now, if commodities are too dear, it must pay with money, and credit in this country is the great producing power, and credit *for a time* is a great sustainer of prices by enabling people to withhold their commodities from the market. Now, raising the rate of discount curtails credit, forces sales, and thereby lowers the prices of commodities, and makes it less profitable to export specie, and more profitable to export goods. Moreover, this rise in the value of money here, *i. e.*, the low price of debts and commodities, tempts buyers from neighbouring countries to bring their money here. It thus causes an inflow of bullion, and restores our currency to an uniformity of value with that of neighbouring countries. Again, if this nation has to spend a great part of its money in buying foreign corn, it is quite clear that it has not got so much to spend in purchasing goods; an over-production of goods, therefore, can only end in a disastrous fall in prices. And here, too, the beautiful action of this great law of nature is manifest. So enormous a proportion of the commodities of this country are produced by the credit system, that a rise in the rate of discount just hits profits between wind and water, as we may say. Consequently, a rise in the rate of discount retards and

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curtails production in proportion to the diminished consuming powers of the nation, and so prevents such a ruinous fall in price as would necessarily follow an undiminished production accompanied by a diminished power of consumption.

48. Now, what is the necessary consequence of an attempt to thwart this great law of nature? In time of scarcity of food, and a necessary export of money to buy it, if the rate of discount be kept unnaturally low, nothing but money will go, commodities are too dear, they will not go. Again, money being kept at an unnaturally low rate here, no one will bring it here from neighbouring countries, consequently, great quantities of money will go out and none will come in, till at last the circulating medium will be nothing but "promises to pay," and no money to pay them with. Then, at last, violent convulsions, total destruction of credit, every one wishing to sell, and no one wishing, or able to buy

49. On the other hand, if when capital is flowing in with too great abundance, it be not repelled by a due diminution in the value of money, *i. e.*, a fall in the rate of discount, it will continue to do so until it is so superabundant that a violent fall takes place. Persons who are accustomed to depend on the incomes they derive from the interest of money, suddenly find that their means are seriously diminished;* then wild speculations find favor in the public mind, promising higher profits, and then the community goes through the cycle of bubble speculation, extravagant credit, ending in a commercial catastrophe. We may feel quite certain that if during

* In the year 1824 there was such a plethora of capital in the country that the Scotch banks gave no interest on deposit; after 1824 came 1825.

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the various crises this country has passed through, there had been more attention paid to observe the natural rate of discount, instead of thwarting the course of nature, though the variations would have been more frequent, they would have been less violent and extreme.

50. Such, however, is the perversity of men that many think that a uniform and invariable rate of discount is the great thing to be preserved, no matter what nature may say to the contrary, and their ingenuity is racked to devise a plan for always keeping it so, just as if the governor of the steam engine ought always to revolve with uniform velocity. Now, the inevitable consequence of taking these means to thwart nature will be that when capital is scarce, it will be repelled by a lower rate than the natural one; when it is already too abundant, it will be still further attracted by a rate higher than the natural one.

51. The extreme anxiety of persons to attain an impossible object, always to have the power of selling debts due to them at a uniform rate, has led to a very prevalent theory which seems very innocent and simple. It being desirable always to maintain the currency at a uniform amount, they propose, that as gold goes out paper should be issued to supply its place. This theory is adopted by Sir Archibald Alison who says, after condemning the theory that gold and paper must vary together,*

"The true system would be just the reverse. Proceeding on the principle that the great object is to equalize the currency, and with it prices and speculation, it would *enlarge* the paper currency when the precious metals are withdrawn, and credit is threatened with a stoppage, and proportionably contract it when the precious metal

* History of Europe, 1815-1852. Vol. II. p. 391.

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returns and the currency is becoming adequate without any considerable addition to the paper."

52. There would be certainly something specious in the idea of issuing Bank notes to supply the place of the gold that went out, if unfortunately it had not been tried over and over again, and been attended uniformly with a catastrophe. When gold was leaving the country in vast quantities in 1796, the Bank of England still maintained its issues, against its own will, it is true, but yet the *fact* illustrates the *principle*, and the consequence was the suspension of cash payments in 1797. When the Bank had got right again in 1817, a drain for foreign loans began, and the Bank extended its issues in 1818, and the consequence was the second suspension of cash payments in 1819. In 1824, when bullion was departing from the country like a flood, the Bank extended its issues; then when it saw itself right in the vortex of bankruptcy, it suddenly altered its policy, and the result of all this was the catastrophe of 1825. In 1838-9, a similar drain occurred, the Bank with marvellous perversity maintained its rate of discount considerably below the market rate, and the result was the monetary crisis of 1839. Surely these instances are enough to destroy this fatal delusion.

53. In fact, Sir Archibald and the great body of public writers who share these sentiments, wholly mistake the object to be sought for in so delicate and artificial a machine as a paper currency. The object to be aimed at is not to preserve a uniform rate of discount in this country, but to maintain a uniformity in the value of the British currency with that of other countries. If money is made artificially cheap in this country, that is, cheaper than it is in neighbouring countries, persons in

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this country will *export* it to where it is of greater value; they will buy foreign securities, they will import foreign commodities. On the other hand, foreign nations will flood this country with their securities—just as the Americans did in 1839, when the Bank kept down the rate of discount below its proper level—because they can sell them at a better price here than in their own country. If a man wishes to sell a horse, and my neighbour will only give £90 for it and I will give £96, he of course will sell the horse to me, and take away my cash. So when the Americans wished to sell their debts, and found that in their own country they could only get £90 per cent. for them, whereas they could get £97 per cent. for them in England, as a natural consequence they sent them to England for sale, and took away the cash. The only way for England to have stopped this would have been to give no more for these securities than the Americans would themselves; in other words, to maintain a uniformity in value between the currencies of the two countries.

54. When the foreign exchanges are unfavorable to this country, the simple meaning of that is, that it is profitable to export gold. Now, where is the gold got from for exportation? From the Bank of England. And how is it got from there? By getting hold of the "promises to pay" gold on demand of the Bank. Now, when the Bank of England knows that a multitude of persons are trying to get hold of its promises to pay, for the purpose of demanding gold for them, to carry out of the country, would it not be the height of folly in the Bank to be multiplying its "promises to pay" in all directions, and selling them cheap? This would be exactly as wise as if the captain of a ship, directly he saw a storm coming on, were to set all his studding-sails

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and royals. When the captain sees the tempest approaching, he must get down his top-gallant masts and reef his topsails; so, when a commercial tempest is threatened, it behoves those who pilot the vessels of credit to *contract* their "promises to pay."

55. The plan proposed by Sir Archibald and a multitude of unthinking writers, is, that when gold is leaving the country, commissioners should be appointed to issue an equal amount of inconvertible paper, which is to be withdrawn when gold comes back again. But what is to be done with the convertible paper already in existence? Is it to be declared inconvertible? For, as long as the rate of discount is depressed, there will be a constant demand for gold in exchange of notes, and a corresponding amount of *inconvertible* paper must be issued. Let this wonderful theory be put in practice, and the drain will not cease until every sovereign has left the country; and moreover, they never will come back again. For, as the avowed intention is to keep down the rate of discount, and to keep up prices, there is nothing to bring the bullion back again. Nothing can bring it back again here, except we can sell our commodities or debts cheaper than other nations. But it is the avowed intention of these issues to prevent that; consequently, no bullion ever will come back.

56. But, moreover, this wonderful panacea of all monetary ills—issuing an inconvertible paper currency, to supply the place of the gold that goes out, is just our old friend John Law's scheme over again, of issuing paper currency based upon commodities. Those who advocate this think that the nation can send its money abroad to buy food, and have it as well in the form of paper money. Just as if a man might go into a

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shop, spend his money there in buying goods, and then have it again in the form of a "promise to pay." When will this stupendous delusion be eradicated from the public mind? If I have a certain quantity of money in my till, I may safely give a "promise to pay;" or, if I know for certain that money is coming in to me on a certain day, I may give my "promise to pay" at a certain date; but when I have actually spent my money, and it is gone away from me for ever, to think that I can then grant a "promise to pay" worth anything, is an idea which savours little of sanity. In 1696-7, during the re-coinage of the silver, the Bank of England might have issued £1 notes with the greatest advantage and propriety for a temporary purpose, because it knew that it would shortly have the money to pay them with; but when the money is gone from the Bank to buy corn abroad, it would be the most dangerous folly possible, to issue notes, to supply the place of the gold.

57. But there are several other considerations which point out that the rate of discount is the true method of acting upon the paper currency. As soon as the exchange becomes so unfavorable as to make it profitable to export gold, an immense number of bills are fabricated for the purpose of being sold for the sake of the premium; and these will continue to be fabricated as long as the rate of discount is kept below that of neighbouring countries; now, raising the rate of discount strangles all such operations in the birth. If only the *numerical* amount of notes be looked to, and the rate of discount be kept down, these speculators may get their bills passed, while legitimate trade bills may be refused. A moderate rise in the rate of discount will never inflict any real injury on trade at all equal to the refusal to dis-

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count trade bills altogether; and that is the result which has always ensued from a perseverance in keeping down the value of money below its natural level.

58. Moreover, when the nation is actually obliged to spend its money in buying foreign corn, or on any other object, such as war, it is quite impossible that it can have so much money to spend upon other things; its consuming powers, therefore, are diminished; it must economise in other things. Now, if the rate of discount is kept below its natural level, it stimulates and encourages production so much beyond the powers of consumption, that it must necessarily terminate in an aggravated fall in prices. A timely raising of the rate of discount is, therefore, a warning to producers to contract their operations gradually. But keeping it unnaturally low lulls them into false security; they maintain their engagements on credit on an undiminished scale, till at last, the Bank, for its own safety, is obliged to pull up on a sudden—to bring up all standing. Then follows a total refusal to discount, commercial panic, and ruin.

59. It is, then, an incontrovertible fundamental truth, in monetary science, that capital and credit form the circulating medium, and that they must increase and decrease together. An increase of currency, without an increase of capital, has no effect but to diminish the value of the currency. The same thing happens if, when capital is destroyed, currency is not destroyed with it. If a metallic currency increases faster than capital, nature provides a remedy; it is immediately exported. But with an inconvertible paper currency, this cannot happen, and when capital is destroyed, currency remains in circulation; when this goes on for any length of time, or to any extent, the inevitable result is a depreciation of the paper currency, which is shewn by the rise of the market

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above the mint price of gold. This was eminently exemplified in England in the years subsequent to 1810. The extravagant speculations were followed by an enormous destruction of capital; but the currency which was issued to represent it remained in circulation, and soon manifested itself in a rapid fall of the value of paper. It was impossible that paper ever should right itself, unless this superfluous currency was destroyed. It is recorded that an Irishman, once having taken a dislike to a banker, collected a number of his notes, and burned them. It would have been an excellent thing for the country bankers of England in 1814-15, if some one had done the same kind office for them. The quantity of paper currency was so excessive, compared to capital, that nothing could restore it to its par value, but the destruction of a large portion of it; and this was brought about by the destruction of the issuers of it; and when this was done, the value of the remainder rose to par.

60. We have thus gone over most of the theories of currency which have attained the greatest practical importance. That there are others, is true; but they have generally been confined to a small knot of fanatics. There is said to be a Birmingham theory of currency, a currency reform association; but as they have never promulgated their views in an authoritative exposition, we believe that the general public has no definite idea of what they are—no more than they have themselves.

61. Every one knows that it is recorded of the ancient Spartans, that they used to make their helots drunk, for the purpose of exhibiting to their rising youth the disgusting practical effects of intoxication. Even so have other nations exhibited before the eyes of Great Britain the hideous convulsions which are the infallible consequence of adopting the insane theories of currency

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we have been discussing in this chapter. And are we not to profit by these terrible lessons? Is the bitter experience of other nations to be thrown away upon us? We hope not. These things were written for our learning. And yet, so deep-seated in human nature is this fatal delusion,—so utterly blind and insensible are a vast number of public writers and speakers to the bitter lessons of experience, that there is a very general demand upon the Government to embark in a career which, by an inevitable law of nature—which the most terrific examples of experience shew can have but one goal—the dread abyss of UNIVERSAL INSOLVENCY.

> "Evertere domos totas optantibus ipsis
> Di faciles!"

62. In the year 1705, the Parliament of Scotland turned a deaf ear to the delusive fallacies of John Law, and sent him about his business, to play his financial pranks in other countries, and the result was, the Mississippi scheme! In the year 1855, the representatives of commerce in the same city which rejected John Law with ignominy 150 years before—namely, the Edinburgh Chamber of Commerce—have set him up as their patron and their model, and have memorialized the Government, and "do most emphatically object to the plan of restricting the security (upon which the paper currency is based) to the possession of gold alone;" and we much fear that they do not stand alone in such sentiments.

63. Now, let it be clearly understood what these persons require:—it is nothing less than a depreciation of the currency. Every issue of paper currency not based upon bullion, is nothing more than a depreciation of the existing currency. In its practical effects, it is exactly

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equivalent to making a ninepenny or sixpenny shilling, only it is rather disguised, so as to escape the notice of persons who do not understand the subject. All nations have had recourse to this description of fraud when they were pinched in their national expenditure, or by political circumstances. It is the resource and the sign of troubled times, and of thievish kings. It was so at Athens, —at Rome—at Constantinople; it was so in the perturbed era of the middle ages at Florence, as we learn from the pathetic apostrophe of the poet:*

"Fiorenza mia * * *
* * * * * *
Quante volte nel tempo che rimembre
Legge, MONETA, ed uficio, e costume
Hai tu mutato."

It was so in England—in Scotland—in France; and under the flimsy disguise of letting the mint price of gold conform to the market price, it is the prevailing cry of a great number of persons at the present day—persons, too, whose education should make them ashamed of being deceived by so transparent a sophism. With such a distempered state of the public mind, there can be nothing more desirable than that a discussion should be brought on in Parliament as speedily as possible, on the specific question of basing a paper currency on anything else whatever than bullion, in order that such folly and madness may receive its quietus once and for ever.

* Dante. Purgatorio. Cant. VI.

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CHAPTER XIII.

OBSERVATIONS ON THE BANK ACT OF 1844.

THE BANK ACT OF 1844 IS FOUNDED ON TWO ERRONEOUS THEORIES OF CURRENCY—AN IMPROPERLY LOW RATE OF DISCOUNT IS, IN ITS PRACTICAL EFFECTS, A DEPRECIATION OF THE CURRENCY—FAILURE OF THE ACT OF 1844 IN THE MONETARY PRESSURES IN APRIL AND OCTOBER 1847 — PROPOSED PLAN FOR THE REGULATION OF THE PAPER CURRENCY.

1. We are now, at length, in a position to take a comprehensive survey of the Bank Act of 1844. Of all the Acts in the Statute book there is none which comes home to every man, which so nearly affects every man's interest as this Act. Few persons are aware of its extremely complicated nature. We hear sometimes of *the principle* of the Act of 1844, as if there were but one principle involved in it! or as if the *object* of it were the same thing as the *principle*; the object it aims at, the same thing as the theory it adopts to attain that object. Whereas, in truth, it is founded upon a multiplicity of theories—it is a combination of several theories of currency, and, moreover, devises a particular machinery for carrying them out. When, therefore, we consider its very complicated nature, we see what a boundless field of controversy it may give rise to; for each of the several

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theories it embodies may be partially or totally erroneous; and even if they be correct, the machinery devised for enforcing them may be imperfect, or erroneous, and inefficient for its purpose. We think, however, that we are now in a position to examine the theories upon which it is founded—to test them by the fundamental principles of monetary science established in the preceding chapters—to point out those principles—if any—which it violates—and to suggest a remedy.

2. The avowed object of the Act is to preserve the convertibility of the note, which the promoters of the Act very justly considered had been endangered on several occasions by the reckless mismanagement of the Bank. In order to preserve the convertibility of the note, they laid it down as a theory, that the quantity of notes in circulation should always be exactly equal in amount to the coin which would exist if there were no Bank notes, and that the Bank notes in circulation should increase and decrease exactly to the same amount as a metallic currency would do. In order to carry this theory into application the Act allowed £14,000,000 of notes to be issued against securities, and every additional £5 above that, only on the security of bullion actually held in deposit by the Bank.

3. It was supposed that these provisions secured that the quantity of notes in circulation would be exactly equal in amount to what a metallic currency would have been, and that the outflow of bullion would, by its own natural operation, withdraw notes in circulation to an equal amount. Having made these provisions, the framers of the Act supposed that they had taken out of the hands of the Bank all power of mismanaging the currency, and that they might manage the Banking department entirely at their own discretion.

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4. To say that the amount of notes should only be equal in amount to what a metallic currency would have been, is a very intelligible proposition, and several banks had been conducted on that principle, such as those of Venice, Amsterdam, and Hamburgh, *but no Bank conducted on this principle ever did, or by any possibility could do, Banking business.* Those banks were pure banks of deposit, they did no discount business whatever; and if the Bank of England were forbidden to discount, there is no reason why it should not be reconstructed on this principle.

5. But if the framers of the Act of 1844 really believed that this Act carried out this theory into practice, no set of men ever committed a more tremendous blunder, because no less than £14,000,000,—the notes issued against the public debt and securities, are over and above what would have been in circulation under a metallic currency. We have shewn in the preceding chapter the fundamental philosophical fallacy of issuing notes against the public funds. The Bank of England has *spent* £14,000,000 in buying the government securities, and is allowed to *have* them too as Bank notes! Now, if this theory be true, every fundholder ought to be allowed to have as many Bank notes as represent the value of his stock, he too should be allowed to spend his money in buying stock, and have it too as Bank notes! And then, according to the framers of the Act of 1844, there would be no more Bank notes in circulation than there would be under a purely metallic currency! By an exact parity of reasoning every man who bought land should also have the purchase price in Bank notes!

6. The framers of the Act of 1844 observed that on former occasions the Bank had neglected to contract its issues, while a drain of bullion was going on, until at

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last, the amount of cash had run so low, that if any demand for gold had arisen from a discredit of the note, the Bank would have been obliged to stop payment. The aim and object of the Act was, that if any drain should arise after it came into operation, an exact amount of notes should be withdrawn from the hands of the *public*, or from circulation. Having secured that object as they imagined, they left the directors free and uncontrolled in their banking business. For the first two years after this Act was passed, no occasion occurred to test its merits, it was a period of unusual prosperity and accumulation of capital. But when the first season of real trial came in the beginning of 1847, we have seen that the Act wholly failed in its intended effect of causing a withdrawal of notes in circulation, in proportion to the outflow of bullion. The directors pursued exactly the same fatal course as they had done on so many former occasions, and the result was the pressure of April. It was manifestly proved, therefore, that the Act provided no effectual check against mismanagement on the part of the Bank.

7. Now, as the Act notoriously and manifestly failed on this most important point, which was fully and candidly admitted by Sir Robert Peel, it becomes a natural inquiry to ask why it failed on this point, which it was supposed had been rendered so secure, and if there be any remedy which can be provided by law? We reply to this that the Act failed because it *aimed at the wrong mark altogether. It wholly missed the true point in the case.*

8. In fact, the Act proceeds on this fundamental fallacy, that the numerical amount of Bank notes is the only thing to be regarded. It quite overlooks the fact that Bank notes are only one form of making advances,

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and that the number of Bank notes required depends, in many cases, on particular methods of doing business, which we shall illustrate more fully afterwards. The framers of the Act thought that over-issues were only manifested by the numerical amount of notes in circulation, and that it was only the numerical amount of notes that could cause a depreciation of the currency, whereas the following is a truth of the most important nature, which has never, that we are aware, attracted the attention that it deserves:—

AN IMPROPERLY LOW RATE OF DISCOUNT IN MAKING ADVANCES IS, IN ITS PRACTICAL EFFECTS, A DEPRECIATION OF THE CURRENCY.

And this depreciation of the currency need not necessarily be manifested by any increase in the amount of Bank notes in circulation. We have before observed that when the exchanges are unfavourable to a certain extent, it becomes profitable to export gold. Persons, therefore, who have had no commercial dealings necessitating a payment, fabricate bills for the express purpose of selling them; now, this practice causes no increase of Bank notes in circulation, on the contrary, they are not wanted, it is *gold* that is demanded and taken for export, and it steals out of the country noiselessly and unobserved. Also, if bankers in this country will perversely maintain the rate of discount lower here than in neighbouring countries, and therefore lower than the natural rate, persons in foreign countries send their debts or securities over here for sale, and the proceeds are remitted abroad. Consequently, this practice causes an export of gold without increasing the notes in circulation. Of all species of property, debts are the most easily transportable. The charges even on the transmission of gold, are heavy compared to those on the transmission of

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debts. Debts to any amount can be transmitted from one country to another, at the mere expense of the postage. Consequently, if the Americans can only get £85 per cent. for their debts in their own country, and they can get £96 per cent. in England, of course they will send them here in vast quantities for realization. This was eminently and notoriously the case in 1839, when the Bank of England kept its rate so perversely below the natural rate, and it was the cause that aggravated the drain of bullion to so alarming an extent. Hence, we have shewn that beyond the causes universally known for an export of specie, namely, payments of genuine debts, there is another and most potent cause, whose importance has never yet been sufficiently recognized—namely, an unnatural depression of the rate of discount, below that of neighbouring countries. Now, the weak point in the Act of 1844, is that it takes no notice of this grand principle, it takes no precaution that the directors of the Bank of England shall recognize it, and counteract it. On the contrary, it leaves them in full power to repeat their oft-committed error of causing a depreciation of the currency, from an unnaturally low rate of discount.

9. Now, we have no hesitation in affirming that a proper regulation of the rate of discount is of infinitely more importance than any regulation of the numerical amount of notes in circulation. Whatever be the number of notes in the hands of the public, if the Bank sells gold too cheap, she will be drained of it; on the other hand, if she takes care to sell it only at its natural value, *i. e.*, at the price it bears in the market of the world, there can be no demand upon her caused by speculation in the exchanges.

10. Great and important, therefore, as is the ob-

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ject sought to be attained by the Act of 1844, and fully allowing that after the repeated warnings the country had had, some legislative interference was absolutely necessary to secure that object, namely, the convertibility of the note, which had been so frequently endangered, we cannot help saying that never was more unfortunate and ill-adapted machinery devised for the purpose. The Act of 1844 is the combination of two of the most erroneous theories of currency that ever prevailed—the one, the "currency principle," and the other, that of "John Law," which are mutually inconsistent; a single £5 note issued upon securities, is as real an infraction of the "currency principle" as the French assignats. Moreover, it takes no measures to enforce the most important principle in the regulation of the currency, that of keeping it at uniform value with the currency of surrounding nations, and when after having left this wide door open, as of old, to the most fatal mismanagement, such mismanagement produces its inevitable consequence, a continuous drain of gold, the method of righting the currency again, is that of all others the most sure to cause a panic, and a total destruction of credit. When the Bank had so frequently kept down the rate of discount when they saw bullion diminishing, what was there to make them keep it up, when the notes were diminishing ?

11. These remarks were most strikingly verified in 1847. During the winter of 1846-7, and spring of 1847, a manifest and notorious drain of gold was going on, the directors trod in the steps of their predecessors of 1825 and 1839, they took no means of raising the value of the currency in this country. All the diminution of notes that took place, was in their own reserves; accordingly, when the whole commercial world were under engagements already contracted, when the state of the Bank's

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resources was published, shewing almost the total exhaustion of the notes in reserve, a complete panic took possession of them. It must be remembered that at this time there was no *commercial* panic, it was caused entirely by the publication of the Bank's reserves, and was caused by the anticipated difficulty of obtaining banking accommodation. The most wealthy houses took care to make ample provision, the less powerful could get no assistance; discounts almost ceased; from having been kept unnaturally low so long, they sprung up with a corresponding force unnaturally high. If discounts had not been kept at 4 per cent. in January, they would not have been at 12 per cent. in April. The pressure of April happily passed off with fewer disasters than might have been expected. Prices then were rapidly rising, and it does not appear that the speculations which ruined the great houses in the autumn, had then begun. But when the autumn came, the commercial panic was dreadful, caused by the unparalleled series of disasters in so short a time; now, there was no danger of the convertibility of the note at this time—the note was not discredited—consequently this was just one of the great crises in which all the great authorities—Sir Francis Baring, the Bullion Report—all the great statesmen in 1819, in 1825, in 1833, and Sir Robert Peel himself, at all those epochs, had declared that an *increase* of accommodation was the true remedy, more especially as the exchanges had been favourable for a considerable time. But this was just the time when it was published to all the world that the Bank had no power to grant accommodation—then, at last, the crisis was too terrible to bear, the ministry were at last persuaded to authorize the Bank to violate the law, and make unlimited issues, only at *a very high rate of discount*. No sooner was this done than the panic

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vanished like the morning mist. But it was a fatal precedent, it was truly the death-blow to the Act of 1844, because it cannot be forgotten that Sir Robert Peel deliberately took away the discretionary power of the Bank of increasing its issues in such a case, because he flattered himself that he had effectually prevented such cases happening at all. This precedent shewed that the Act of 1844 wants the indelible marks of a true principle—to be applicable in all cases, and to any extent. Nay, we must say that the operation of the Act in such a case, which we may fairly hope will never happen again, is the very worst method of meeting it that can be devised, and the very one most certain to convert a pressure into a panic. In such a case as this, when the resources are notoriously limited, and when, of course, the Bank would never permit itself to be run really dry, except through the demands of its depositors, which it could not refuse, it is very certain that it will stop discounting altogether some time before it reaches its legal limit. Consequently, a general rush to secure notes takes place. Houses over-provide themselves, and moreover refuse to part with a single note,—a complete stagnation ensues, circulation is totally destroyed, ending in universal ruin, unless the law is repealed.

12. The precedent of 1847 is sure to be followed by the most disastrous consequences. On the occasion of every monetary pressure arising from natural causes, the relief that was given by the relaxation of the Act on that occasion will be sure to be demanded by a large portion of the public. Consequently, repeated and unceasing importunity of the ministry, and every failure of a commercial house will be laid to their score. The breach of the law once, which was attended on a special occasion with such happy consequences, will be considered as a

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universal panacea for overtrading and unfortunate speculation, it will be supposed to furnish an inexhaustible source of cheap money. No reasoning will convince an immense portion of the gullible public that if they choose to spend their money in making war, they cannot have it on as cheap terms for commerce. This Act will, therefore, be a perpetual thorn in the side of every ministry until they devise a scheme which shall really be self-acting, founded on the true nature of monetary science, and fitted to act on all occasions.

13. While we have indicated the weak points of the Act of 1844, and shown how it fails to avert a crisis from its non-recognition of one of the most momentous principles of monetary science, we must not omit to say what it did really effect in that extraordinary year. While it failed to compel the directors to adopt a prudent course, it brought them up suddenly before they had run their full course of folly and imprudence. That a crisis would have certainly ensued in the summer we firmly believe, and if the Act of 1844 had not checked them in April, they would have had the same crisis in summer, with probably £2,000,000 of bullion instead of £8,000,000. Then would have followed the disasters of the autumn. The Bank, already all but drained by the mismanagement of the spring, would have had to meet a new and tenfold aggravated crisis, with not more than two or three millions of specie in its vaults. We think it as certain as any event that never happened can be, that the Act of 1844, imperfect as it is, was the only thing that saved the country from a suspension of cash payments in October—that when the crisis came, the Bank had £8,000,000 of money to meet it with.

14. Thus much truth requires to be admitted. But

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now the momentous question arises—Seeing that the Act admittedly failed in *preventing* the crisis which its authors undeniably expected it would do;—Seeing that it is universally allowed that a more prudent course on the part of the Bank would have averted the crisis—and seeing that the direful consequences of that mismanagement were only averted by the fatal precedent of violating the law, and that the Act was not able to bear the strain to which it was subjected—is it possible to provide by legislation against the recurrence of similar disasters? Moreover, is it possible to provide by law a plan that by its own natural operation may bear any strain, and which will render any appeal to the Government hopeless? We think there is. We think that every consideration of science and sound reasoning points out that the true remedy lies in the legal regulation of the rate of discount, in the legal prohibition of the Bank to cause a depreciation of the currency, by selling money below its natural value, and so draining it out of the country.

15. All great statesmen are agreed that it is absolutely necessary to regulate the monetary concerns of the nation by law. Ample and bitter experience has shown that the value of every man's property is not to be left at the mercy of a body of individuals. The great question of regulation, then, being admitted, it only remains to discover which is the best form of regulation—which is founded on the true principles of monetary science—which of the great principles of the science the Bank directors habitually violated, and thereby brought on those calamities which might have been avoided, if they had adopted another course. The question of regulation, then, as we say, being admitted, the only true course is to

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compel the Bank to adopt that course which they ought to have adopted. The inveterate sin of the Bank has been to depreciate the currency by too low a rate of discount whilst the Bank was being drained of treasure; consequently, the law should compel them to preserve its uniformity of value with that of other nations, by compelling them to a timely raising of the rate of discount.

16. In order to carry this plan into effect there should be a certain sum of bullion fixed upon, which it should be desirable to retain in the country at all hazards, or, at least, only to be used in the last extremity. This sum being fixed upon, a certain rate of discount should also be fixed upon, which should render it far beyond the reach of any ordinary contingency that it should be possible that that sum should leave the country. Thus, let us suppose that it was held to be desirable to secure the sum of £8,000,000 as the very lowest sum which would secure the convertibility of the note. Now, the law might fix a certain rate of discount as the minimum at which the Bank should discount, when its treasure was reduced to this amount, a rate which by no ordinary contingency would permit it to leave the country, and which would as certainly cause an inflow of bullion from other countries. Such a rate of discount might be fixed at 10 per cent. Then, as the bullion gradually increased, the rate of discount might be lowered till the ordinary rates prevailed. And if the sum of money usually in the Bank in prosperous times were taken as a standard, and the usual rate of discount charged by the Bank were taken as the minimum, the rates should be fixed by law at an increasing ratio as the bullion diminished. The details of such a plan would of course be open to consideration,

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but some such scale as the following would shew the principle:—

If the Bullion stood at	The minimum rate of discount should not be less than
£20,000,000	2½ per cent.
£17,000,000	3 „
£15,000,000	3½ „
£14,000,000	4 „
£13,000,000	4½ „
£12,500,000	5 „
£12,000,000	5½ „
£11,500,000	6 „
£11,000,000	6½ „
£10,500,000	7 „
£10,000,000	8 „
£9,000,000	9 „
£8,000,000	10 „
£7,500,000	11 „
£7,000,000	12 „
£6,750,000	13 „
£6,500,000	14 „
£6,250,000	15 „
£6,000,000	16 „

17. If such a scale of discounts as this had been in operation in 1847, there can be no doubt that the pressure in the spring would not have occurred. That the panic in the autumn, and then the necessity for the authorization of the violation of the law would have been saved. That some such course as this, the directors ought to have adopted of their own accord, is admitted; that it would have been effectual, is also admitted; what, then, is more natural than that it should be enacted by law?

18. If a scale of discounts on some such principle

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as the foregoing were adopted, it would be perfectly self-acting, and it would be quite unnecessary to impose any limitation of the amount of issues. Besides, it would carry the country through any imaginable crisis; it would effectually prevent the depreciation of the currency from too low a rate of discount, and it would also protect the Government from the clamors of the public. It would be an infinite relief to the Bank directors themselves, as it would relieve them from the odium of making money dearer, which the unthinking portion of the community are always too ready to impute to them, when they take the necessary precautions which their undeniable duty points out, to preserve the value of the currency.

19. To make the measure complete, however, means should be gradually adopted, to efface that scandal and opprobrium of monetary science—the issue of notes upon public securities, or upon any other basis than bullion. The Government paid off, in 1833, one-fourth of the public debt to the Bank. The whole of it should be paid off by degrees, and then the Bank might invest such portion of its capital as it pleased in public securities, just as any other bank may. But it should not be permitted to spend its money in buying stock, and have it too, in the form of its own notes. The monetary system of this country will never be in a sound and satisfactory condition until this great scandal and outrage upon all the true principles of the science is remedied.

20. The framers of the Act take credit that it preserved the convertibility of the note in 1847; but this must be received with a very important qualification. There never was any question of the convertibility of the

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note then—so far from the note being discredited, it was Bank notes that every one was so eager to get. If the note had been discredited, if there had been a run for gold in exchange for notes, we very much doubt that the Act would have preserved the convertibility of the notes. For, if the note had really been put in danger, the only way it could have been saved, would have been by the sale of public securities. But it is extremely doubtful whether the Bank could have sold public securities for gold in the great pressures of 1847, without causing such a ruinous depression of them, as would have been most injurious to the public interests. We believe that the mode of expression more nearly applicable to the state of the case was, that *if* the Bank note had been discredited, there was a greater stock of gold to meet the run, than there would have been without it.

21. The fatal blot, then, of the Act of 1844, is, that it leaves the door open for exactly the same mismanagement which had brought on so many calamities before. Not only does it fail in preventing—contrary to the expressed anticipation of its framers—commercial and monetary panics; but when they occur, it adopts the method most certain to aggravate their violence and intensity. For, when the resources of the Bank are already brought too low, it brings on them a demand for notes far greater than the wants of commerce require. People wish to get notes simply for the sake of self-preservation; then they hoard them, and keep them out of circulation. The most eminent witnesses said that between £4,000,000 and £5,000,000 of notes were hoarded, through the panic in October, 1847; but when everybody knew that they might get them, even at a very high rate of discount, the panic passsd away, and an issue of £400,000 was sufficient to

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satisfy the public necessity. No man in business would not rather pay 20 per cent. discount for a supply of notes in some great emergency, than not have them at all. Now, as all the greatest statesmen protested against fixing a *numerical* limit on the issues of the Bank, because it imposed a prevention on the Bank acting in certain great emergencies; and as Sir Robert Peel only justified his imposing a numerical limit on its issues, because he anticipated that the self-acting working of the Act would prevent those emergencies arising; and seeing that the expectation was wholly falsified, it follows, as a necessary consequence, that the whole machinery of the law should be altered. On the other hand, if the discretion of the Bank is to be fettered by law, every consideration of sound reasoning shews that the course prescribed by law, should be the one which every one agrees that the Bank ought to have adopted in the circumstances, which we have indicated above. Moreover, the ministry themselves gave the preference to determining the rate of discount, rather than the numerical amount, in the great crisis of 1847. For, those who urged them to relax the Act suggested that the limit should be placed upon the quantity of notes issued; but the Government most wisely, and acting upon the fundamental principles of the science, left the numerical amount free, but limited the rate of discount; and what was the consequence? £400,000 of notes stayed the panic! Now, we venture to affirm, that if they had adopted the other alternative proposed to them, and if the commercial world had seen that the total relief was limited to a paltry £2,000,000, it would have a very small effect in allaying the demand. The probability is, that they would have been soon absorbed. Hence we "conclude that reason, evidence,

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and experience combine to demonstrate that" it is a false and dangerous principle to fix the numerical amount of paper issues, and that THE ONLY TRUE METHOD OF REGULATING THE PAPER CURRENCY IS BY A PROPER ADJUSTMENT OF THE RATE OF DISCOUNT.

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CHAPTER XIV.

ON THE BUSINESS OF BANKING.

THE BUSINESS OF A BANKER IS TO DEAL IN CURRENCY—ON BANKING ACCOUNTS—REFUTATION OF SOME ERRORS ON THE SUBJECT—VARIOUS BRANCHES OF BANKING BUSINESS—ON BANK NOTES AND CHEQUES.

1. THE business of a merchant is to deal in commodities; the business of a banker is to deal in currency; a merchant buys and sells commodities; a banker borrows, and buys and sells currency—two species of business which are essentially distinct from one another, and which can seldom be undertaken on a large scale by the same person or company, and the attempt to do so has, in many cases, led to the most disastrous results.

2. There are various kinds of offices for receiving money; but the distinguishing feature of a "BANK" is, receiving money, and undertaking to repay it instantly on demand. When a man keeps his money at a banker's, he is supposed to have exactly the same command over it as he would have if it were deposited in his own chest, in his own house, unless he makes a special bargain, to leave

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it a certain time with him. Now, as though a banker is bound theoretically to repay every one of his customers instantly on demand, yet, as no man whatever would spend all his money if it were in his own possession, but would keep a store of it, and spend it gradually; so, when he keeps it at his banker's, he will not be likely to require it all at once, but will keep a store of it there, just as he would have done if he had kept it at home; and the banker is able to trade with it in a variety of ways, if he takes care to keep by him sufficient to meet any demand his customers are likely to make on him. The different methods in which a banker trades with the money left with him by his customers, depend very much on the class of his customers and their occupations, and the general business of the locality he lives in. He must adapt his business in such a way as may be most suitable for the class of customers he has to deal with; so that he may never fail, for an instant, to meet any demand. If his customers are chiefly country gentlemen, whose rents are remitted regularly, and who draw them only for family expenditure, he may calculate pretty accurately on the demand likely to be made on him, and he may lend out his funds on more distant securities than are proper in other cases. Such are chiefly country bankers in agricultural districts, and those at the West End of London.

3. But when a banker does business in a trading community, who are in constant want of their money, and whose demands are much more frequent and unexpected, he must adopt a very different line of business. He must then have his funds within reach at a very short notice, and he ought to have them invested in such property as he can re-sell on a very short notice, to meet any unexpected pressure upon him. The business of such a

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banker will chiefly consist in discounting bills of exchange, and is of a distinct nature from that of lending money on mortgage. In advancing money on mortgage, it is nothing but a *loan*; the mortgage is merely deposited with the banker as a collateral security, to protect the banker against loss, in case the borrower fails to repay the loan, and the banker has no right to part with the security. But the business of discounting is not *lending* at all, but that of *buying* debts, and the bills the banker buys become his own property, which he can sell again if he pleases, or deal with them in any way that suits his purpose best.

4. Among the numberless inaccuracies of expression which pervade and confuse every part of monetary science, it is not one of the least, to speak of discounting bills as *lending* money. When the word loan is used, it means that the thing lent is to be returned by the *same person* who receives it. If *I lend* my friend a horse, or a book, he is to return me the identical horse or book I lent him; if *I lend* him money, he is to give me back, not the identical pieces of money, perhaps, but equivalents for them; at all events, the *same* person who receives the money is bound to restore it. But in discounting bills, the case is perfectly different. When a customer brings a bill to his banker to be discounted, he offers the debt due to him for *sale*. The banker *buys* a debt due from the acceptor of the bill. If the banker were to buy the bill without his customer's endorsement on it, he would have no recourse against him, if the acceptor did not pay the bill. In the majority of cases, it is the drawer of the bill who negotiates it; and as bills are usually made payable to the *order* of the drawer, he must endorse it, to transfer the right to claim payment of the debt from the acceptor; and by endorsing it, he warrants the payment

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of it in case the acceptor fails, on condition that the holder gives him *immediate* notice of the nonpayment, and *demands* payment of it from him. If the holder fails in either of these requisites, the drawer is exonerated. The transaction is then simply this. The customer sells to the banker a debt to him, and, by indorsing it, promises that if the acceptor fails to pay it, he, on certain very strict conditions, will do so. So far from the transaction being a *loan*, the customer hopes never to hear of it again after he has sold it to his banker; and if the banker thought that the acceptor would not pay it, he would not buy the debt.

5. The chief business, then, of commercial banking consists in buying short dated debts; a bank of this description is a shop opened for the purchase of debts and we must describe the operation very minutely, because we shall find that it will dissipate several fallacies which are very prevalent among amateur writers on political economy. Let us deal with small figures, as they will illustrate the principle quite as well as larger ones. Leaving out of consideration the banker's own property or capital, let us suppose that he has deposits in cash from his customers A, B, C, &c., &c., to the amount of £10,000. Then his accounts would stand as follows:—

Liabilities.	£	Assets.	£
To Balances on drawing accounts . .	10,000	To cash in hand	10,000

Now, suppose that other of his customers, *a*, *b*, *c*, &c., &c., bring him bills to discount, that is, offer him debts for sale to the amount of £5000. Let them be 12-month bills for the sake of simplicity, and let the rate of discount be £5 per cent. If he thinks them good debts, and agrees to buy them, he does not usually give

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the *actual cash*, he gives his customers *a*, *b*, *c*, &c., *credit in his books* for the full amount of the bills, and charges them the discount at the same time. Let us suppose that his customers do not draw out the cash on the first day, then the banker's balance sheet will stand thus:

Liabilities.	£	Assets.	£
To Balances on drawing accounts	14,750	By bills of exchange	5,000
		Cash in hand	10,000
	£14,750		£15,000

The £250 profit being the banker's own property. As soon as the banker has agreed to buy the bills, and placed the sums to his customers' credit, these figures become "balances on drawing accounts," and are his "promises to pay" equally with the figures which represent actual deposits in cash, and are undistinguishable from them. Both sets of customers, A, B, C, &c., and *a*, *b*, *c*, &c., have an equal right to call upon him for instant payment of their "balances." Hence, by this operation the banker's "promises to pay" have become £14,500 and his assets £15,000. Now, both sets of customers have the same command of cash as if it was deposited in their own houses; these figures are as good as sovereigns to them, and, consequently, the effects of this single operation have been to make £10,000 as useful to the community as £14,750.

6. There is no need that the operation should stop here. If the banker thinks it prudent he may buy more debts—place more figures to the credit of his customers, and the "balances" and the "assets" will rise equally; his "promises to pay" will increase, though the actual

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cash in his hands does not increase. Now, the whole art and genius of banking consists in his keeping a due proportion between his "promises to pay" and his actual cash, so that, on the one hand, if he refuses to buy debts, he may lose profit; on the other, if he buys too many debts, in the event of any unusual demand for cash, he may not have it ready, and then his credit is ruined.

7. In former times the banker gave his "promise to pay" in the form of notes, which practice continued to be used by London bankers till about 1772, when they changed the form, and adopted the plan of giving their promises to pay in the form of figures placed to the credit of their customers' accounts, and gave them cheque books, and permitted them to draw bills upon them payable to bearer on demand. When bankers issued notes they intended them to circulate as freely as money, and undertook to pay them to anybody that presented them. When they persuaded their customers to adopt the method of cheques as a substitute for notes, they must equally have undertaken to pay them to bearer on demand, to make them as like money as possible.

8. It follows from these considerations that cheques are merely another form of Bank notes, and were intended as a substitute for them. In all cases where a cheque is now used a Bank note would have been necessary if cheques had not been invented. But they are not exactly equivalent, for in many cases where Bank notes would pass, cheques will not pass. Consequently, though in every case where a cheque passes, Bank notes would pass, the converse is not true that in every case where Bank notes pass, cheques would pass, and the system of cheques does not supersede coin to so great an extent as Bank notes do.

9. We are persuaded that much of the misconcep-

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tion that prevails upon this subject arises from the belief that cheques are only drawn against actual cash deposited with the banker, and that Bank notes are founded merely on his credit. But such a belief is erroneous. Bankers invariably buy bills of exchange with their "promises to pay" in the first instance, and not with coin, and cheques drawn against these promises to pay are as purely based upon the banker's credit as Bank notes are.

10. An attentive consideration of this example will dispel many fallacies upon the subject of credit, which are current among writers who are evidently not conversant with the mode of making up banking accounts. If a banker could not multiply his "promises to pay" far beyond his actual cash, which can only be done by the system of Bank notes or cheques, he either could do no banking business at all, or it would be so curtailed that he would have to increase his charges to a very much heavier amount than he does at present. The secondary class of bill brokers frequently charge 15 or 20 per cent. discount on bills, and one reason is, that they discount with cash; a banker commonly discounts with his "promises to pay," which he can multiply far beyond the limits of cash, and therefore he can charge at a lower rate.

11. The example we have taken is also conclusive to shew the prodigious fallacy of the "currency principle," which only looks to Bank notes as displacing coin, and holds that they should only equal in amount the coin they displace. It takes no account of cheques, which displace coin exactly in the same manner that Bank notes do, or, rather, the correct mode of expression is, that these forms of credit enable any quantity of coin to perform many times the effective duty that the coin could possibly do, if they were abolished.

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12. A consideration of this example also shows the very great misconception that is likely to be produced by an expression which is very often used regarding bankers, that they are merely agents between persons who want to lend and those who want to borrow. This is not true in the ordinary sense of the words lending and borrowing, because in ordinary cases of lending and borrowing, the lender deprives himself of the use of the capital he lends. But in ordinary banking, both parties have the complete use of the capital. The customer lends his money to the banker, and yet has the free use of it—the banker employs that money in promoting trade; upon the strength of its being deposited with him he buys debts with his "promises to pay," and the person who sells the debt, has the free use of the very coin which the lender has the same right to demand.

13. A consideration of the same example will also shew the extreme erroneousness of Mr. M'Culloch and Mr. John Stuart Mill's ideas upon the subject of credit, which is not surprising, considering that neither of them has any practical knowledge of what they write about. Both of these writers are very severe upon those persons who think that credit is capital, or increases capital. Thus, Mr. M'Culloch say:—

"It is plain that to whatever extent the power of the borrower of a quantity of produce, or of a sum of money to extend his business, may be increased, that of the lender must be equally diminished. The same portion of capital cannot be employed by two individuals at the same time.

"When produce is sold in the way now described, it is usual for the buyers to give their bills to the sellers for the price, payable at the period when the credit is to expire; and it is in the effects consequent to the negotiation of such bills that much of that ma-

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gical influence that has sometimes been ascribed to credit, is believed to consist. Suppose, to illustrate this, that a paper maker, A, sells to a printer, B, a quantity of paper, and that he gets his bill for the sum payable at twelve months after date, B could not have entered into the transaction had he been obliged to pay ready money; but A, notwithstanding he has occasion for the money, is enabled by the facility of negotiating or discounting bills, to give the requisite credit, without disabling himself from prosecuting his business. In a case like this, both parties are said to be supported by credit, and as cases of this sort are exceedingly common, it is contended that half the business of the country is carried on by its means. All, however, that such statements really amount to, is that a large portion of those engaged in industrious undertakings do not employ their own capital, but that of others. In the case in question, the printer employs the capital of the paper maker, AND THE LATTER EMPLOYS THAT OF THE BANKER OR BROKER WHO DISCOUNTED THE BILL. This person had, most likely, the amount in spare cash lying beside him, which he might not well know what to make of; but the individual into whose hands it has now come, will immediately apply it to useful purposes, or to the purchase of the materials, or the payment of the wages of the workmen employed in his establishment. It is next to certain, therefore, that the transaction will have been advantageous, but still it is essential to bear in mind that it will have been so, not because credit is of itself a means of production, *or because it can give birth to capital not already in existence*, but because, through its agency, capital finds its way into these channels in which it has the best chance of being profitably employed. The real advantage derived from the use of bills and Bank notes as money consists, as has been already shewn, in their *substituting so cheap a medium of exchange as paper, in the place of one so expensive as gold.* * * * On analyzing any case of this kind we shall invariably find, that all that the highest degree of credit and confidence can do, is merely to *change the distribution of* capital—to transfer it from one class to another."

14. So also Mr. Mill:—

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"But though credit is *never* anything more *than a transfer of capital from hand to hand*, it is generally, and naturally, a transfer to hands more competent to employ the capital efficiently in production. * * * Although, therefore, the productive funds of the country are not increased by credit, they are called into a more complete state of productive activity. The principal instruments for this purpose are banks of deposit. Where these do not exist, a prudent person must keep a sufficient sum unemployed in his own possession, to meet every demand which he has even a slight reason for thinking himself liable to. When the practice, however, has grown up of keeping this reserve, not in his own custody, but with a banker, many small sums previously lying idle, become aggregated in the banker's hands; and the banker being taught by experience what proportion of the amount is likely to be wanted in a given time, and knowing that if one depositor happens to require more than the average, another will require less, is able to lend the remainder, that is the far greater part, to producers and dealers, thereby adding the amount, not, indeed, to the capital in existence, but to that in employment, and making a corresponding addition to the aggregate production of the community."

15. The fundamental error of Mr. M'Culloch and Mr. Mill consists in believing that bankers always discount bills with *actual cash*, whereas they NEVER do so in the first instance. They invariably make these advances by means of "promises to pay," either Bank notes, or by placing the amount to the credit of their customers, to be drawn against by cheques. And the number of these "promises to pay" that a banker may create, depends very much on the demand that may actually be made upon him to pay them in coin.

16. Moreover, the example we have been commenting upon, shews the great error of Mr. Tooke's opinion, which he has expressed on more than one occasion, that no mode of banking adds to capital, it only distributes existing capital. It is unquestionably

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true that no mode of banking can create actual gold sovereigns; but, if by means of their credit, bankers can circulate their "promises to pay," and if these be voluntarily received and accepted by the community at large, at exactly the same value as if they were actual sovereigns, then just by so much as they exceed in number the quantity of actual sovereigns in the banker's possession, they are, to all intents and purposes, an *addition* to existing capital; for not only does he save the use of the actual coin in an immense multitude of instances, where it would be required if banking did not exist, and liberates it, and enables it to be applied to promote commerce, which is, in its practical effects, identical with an addition of actual coin to that extent, but by the extra multiplication of his "promises to pay" over and above that, he is enabled to make what is, to all intents and purposes, a further addition to the moving power of commerce.

17. Banking is, therefore, the most potent engine for the increase of the moving power of any given quantity of actual capital that it is possible to devise, consistently with keeping up the value of the currency at its level with bullion. And just as banking spreads more extensively, does it multiply the producing power of the community. We have already noticed the great economising power of railroads in diminishing the quantity of capital required to supply any given demand for commodities; now, an extension of banking acts precisely in an analogous manner, but to a much greater degree; for, not only does it economise the actual substance to a very great extent, but it makes the "promise to pay" of equivalent value with the actual payment. And it is just in this multiplying power of capital that the principal

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danger of too rapid an extension of banking consists. The rate of discount always depends upon the proportion between actual capital and the demand for it, or on the debts offered for sale. A sudden change in the proportions of these causes the most violent fluctuations in the rate of discount. If an unusual quantity of capital is too suddenly thrown upon the market, the only result must be a rapid and extreme fall in the rate of discount. Now, a too rapid extension of banking has precisely the same effects as throwing a vast quantity of capital suddenly on the market; for, not only do the actual operations of banking have all the practical effects of adding to the existing capital, but to that will be added all the evil effects of over-competition, an unnaturally low rate of discount, thereby a depreciation of the currency; an export of bullion; a joint-stock bubble mania, with all its rogueries; then a collapse, and commercial ruin.

18. Great and inestimable, therefore, as are the blessings and advantages of banking, there is no department of trade which is likely to produce more fatal consequences to the public by too rapid an extension of it, and too rapid a multiplication of banks. There is no *mania* which should be looked to with a more jealous eye by the public, or more carefully guarded against by the legislature, than a bank mania, nor one which is more properly the subject of regulation by law.

19. Of late years, it has been the practice of joint stock banks to publish their accounts; and since the Joint Stock Banking Act of 1845, they are required to do so by law; but those who do not know how banking accounts are made up, may draw very erroneous conclusions from them. Thus, when the accounts of the great London joint stock banks are published, shewing that

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they have balances or deposits of £9,000,000, many persons might imagine that these figures mean that they have nine millions of *cash* deposited with them to trade with; but this would be a very great mistake indeed, for a very large proportion of these "balances on drawing accounts" consist merely of figures placed to the credit of their customers on the discount of bills, which are exactly equivalent to bank notes. Nor is it possible for any ingenuity to discover what proportion consists of actual cash, lodged by customers, and what proportion consists merely of credit. But the stability of the bank depends upon a due proportion being kept between them, and it might very well happen, that while the "deposits" were apparently mounting up, and might lead many persons to believe that the actual quantity of cash was increased, it might be nothing, perhaps, but a dangerous extension of credit; and if this were carried to too great a length, the bank might be in the most dangerous position, just when it was apparently most flourishing. A private banker on a large scale often has an application to place £10,000, or more, to the credit of a customer; if he does this, it immediately counts as a "deposit" in banking accounts. Again, it is a very possible case, that a large railway company might request their banker to place £100,000 to their credit. Now, if the bank does this, such a transaction goes to swell up the figures of "deposits" in their published accounts, which may lead to very erroneous inferences by the public, who do not know the mode in which banking accounts are made up.

20. In all banking accounts, therefore, at least of those banks which do any business at all, the "balances" or "deposits" always far exceed any cash that was ever

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actually deposited with them; but yet these figures are of the same value and utility to those persons at whose credit they stand, as if they were actual sovereigns; which simple consideration is sufficient to dispel an amazing amount of error, which is now the established opinion among writers on political economy of the present day.

21. Bankers trade either in buying, or lending money on "securities," and from this common name it may be thought that banking "securities" are all of the same nature. But this is not so. There are two distinct species of "securities" which bankers deal with, as, "*securities for money*" and "*convertible securities.*" The first of these is currency, the second property. Thus, "*securities for money*" comprehend all personal engagements to pay fixed sums of money of all descriptions, such as Bank notes, cheques, bills of exchange, promissory notes, exchequer bills. On the other hand, "*convertible securities*" mean securities which are not any specific engagement to pay money, but are property, for which there is usually a ready sale, or for which purchasers can generally be found at a short notice, such as the public funds, Bank stock, shares of railways, insurance companies, banks, gas and water companies; all these are property, but not currency. For the first description of securities, the purchaser always expects to get an ascertained sum; for the second, there is no fixed price, but their value fluctuates, just like that of corn, or any other commodity.

22. We must now consider the various methods in which bankers trade with their capital and deposits, which are capital to them. They are, 1st, by discounting bills of exchange; 2ndly, by advancing to their customers on their own promissory notes, with or without collateral security; 3rdly, by means of cash credits,

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or, as they are sometimes called, overdrawn accounts; 4thly, by lending money on mortgage; 5thly, by purchasing public securities, such as stock, or exchequer bills.

On Discounting Bills of Exchange.

23. The invention of discounting bills of exchange is the most ingenious method ever devised for accelerating production, and assisting commerce. When the manufacturer or importer has sold goods to the wholesale dealer on credit, it will be a long time before the money comes in, consequently, unless the manufacturer has further capital to go on with, he must stop his operations. However, he takes from the wholesale dealer evidence of his debt, and a promise to pay at a fixed time, in the form of a bill of exchange. We have already given the usual form of a bill of exchange in Chapter V. The drawer usually makes it payable to himself, or to his order. If the debtor accepts it in this form, he binds and obliges himself to pay it to any one to whom the drawer may assign it, which assignment is made, and to be proved, by the drawer writing his name on the back of the bill. The drawer of the bill then takes it to his banker, and offers it to him for sale. If the banker buys it, he requires his customer to endorse the bill, which, if he does by an endorsement in blank, that is, by simply writing his name, without specifying that it is to be payable to any particular person, makes the bill payable to bearer; and has also this effect, that if the debtor fails to meet his engagement, the seller of the bill undertakes to pay it, provided *the banker gives him immediate notice of it, and demands payment.* These two things are absolutely essential to make the customer liable, for, if the

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banker fails in either of them, he loses his remedy against his customer, who is discharged from all liability by such negligence. A bill of exchange which has once been endorsed in blank, becomes exactly like a Bank note, and passes, by mere delivery without any endorsement, if any receiver of it chooses to forego the additional security of having the name of the person who negotiates it upon it.

24. The banker invariably buys the bill in the first instance, with his "promises to pay." The difference between the price he agrees to pay, and the amount of the debt, is called the *discount*, and varies according to circumstances. If money is getting scarce, and debts are pressed for sale, the price of them falls, or the discount rises, and money is then said properly to rise in value; if capital is increasing faster than the demand for it, and the number of debts offered for sale diminishes, the price of them will rise, and the discount will diminish, and money is then said to fall in value. The transaction of discounting bills is nothing more than buying debts, and their change of price is subject to exactly the same rules as any ordinary purchase of wheat, or anything else.

25, No sort of property is subject to so small variation in price as debts. Wheat has been known to vary from 120s. to 49s. per quarter in four months, but a debt of the best quality is in ordinary times scarcely ever sold at a greater discount than 3 or 4 per cent., when the discount rises to 6 per cent, the value of money is considered to have risen to a great height, and except under very peculiar circumstances, such as the great monetary panics in 1825 and 1847, such a discount as 10 per cent. has not been heard of for several hundred years.

26. The banker having agreed to buy the debt

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offered him for sale, gives his customers credit for the full amount of the debt, and, at the same time, charges him with the discount, which is his profit.

27. In a commercial district, where banks are liable to have sudden calls made upon them for money, this system of buying debts is one of the most eligible that can be adopted for employing their funds, because if any demand arises more than ordinary, these debts are constantly being paid, and as the money comes in, the banker need not buy any more, or, at all events, he can restrict his purchases, and prevent so much going out again. Moreover, in case of any very sudden pressure, as they are not merely lodged with him as securities, but have become his own property, he can usually sell them again, and obtain an instant supply of money.

28. The system ef discounting bills is intended to be the sale of *bonâ fide* debts for work done, or for property actually transferred from one party to another, and there is nothing that requires more sleepless vigilance on the part of a banker, than to take care that the debts he buys are genuine, and not fictitious ones. When bills are offered for sale, he ought to know whose debt it is that he is buying, and he ought to be able to form some conjecture as to the course of dealing between the parties, which could give rise to the bill. Bills should not only be among traders, but only according to a particular course of trade. We will speak of real debts in the first place; and these may arise in a number of different ways. First, between traders in the same business, and, secondly, between traders in different species of business, but yet for work done. If we take the case of manufactured or imported goods, there are usually three stages they pass through. 1st. From the manufacturer or importer to the wholesale dealer. 2ndly.

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From the wholesale dealer to the retail dealer; and 3rdly. From the retail dealer to the consumer. Each transfer of property may give rise to a bill; but of these, the first two are by far the most eligible, and are most peculiarly suitable for a banker to buy, the third should only be purchased with very great caution, and but rarely.

29. There are other cases of good trade bills, when one business requires the supply of different productions, such as a builder requires supplies of wood, lead, slates bricks, and other materials. Hence, a bill of a wood merchant, or a lead merchant, on a builder, would be a very natural proceeding, and apparently a proper trade bill. Again, bills may legitimately arise between traders of wholly different descriptions, but yet for work done. Thus, if a builder fits up premises for a shopkeeper or merchant, a bill between the parties for the work done is a very legitimate one for a banker to discount. All these bills, therefore, follow the natural course of trade, and carry the appearance, on the face of them, of being genuine.

30. But if a banker sees bills drawn against the natural stream of trade, it should instantly rouse his suspicions. Thus, a bill drawn by a wholesale dealer upon a manufacturer, or by a retail dealer upon a wholesale dealer, would be contrary to the natural course of trade, and should arouse suspicion. A bill drawn by a lead merchant upon a builder would be proper on the face of it, if there were nothing to excite suspicion; but a bill of a builder upon a lead merchant would be *suspicious*, unless it were satisfactorily explained. Moreover, bills of one person upon another, doing the same business are suspicious upon the face of them. Thus, a bill of one manufacturer upon another in the same business, or between one wholesale dealer and another, are evidently

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suspicious, because there is no usual cause of dealing between them. Besides, such bills are chiefly generated in speculative times, when commodities change hands repeatedly, on speculation that the prices will rise. Bankers should be particularly on their guard against buying bills drawn against articles which are at an extravagant price, in times of speculation.

31. As it by no means commonly happens that the drawers and acceptors of bills are customers of the same bank, the banker is *primâ facie* influenced by the respectability of his own customer, who is the drawer or indorser of the bill. He ought, however, to acquire specific information regarding the persons upon whom his customers are in the habit of drawing, and satisfy himself that they are likely to be genuine bills. And this vigilance should never be relaxed in any case whatever. We hold it to be utterly contrary to all sound banking, to take bills merely on the supposed respectability of the customer. But we believe it to be far too common a practice to look merely to the customer's account. Customers begin by getting the character of being respectable—they bring, perhaps, good bills at first—and keep good balances; and their bills are punctually met. This regularity and punctuality are very apt to throw a banker off his guard. He thinks his customer is a most respectable man, doing a good business; all the bills are taken to be trade bills. By-and-by, the customer applies for an increased discount limit, on account of his flourishing business. The banker is only too happy to accommodate so promising a customer. His discounts swell, and his balances diminish, but his bills are still well met. However, the times come, perhaps, when the banker thinks it prudent to contract his business generally, and this may be one of the accounts he may think it expe-

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dient to reduce; and then he makes the pleasant discovery that there are no such persons at all as the acceptors, and that the funds for meeting all these bills have been got from himself!

32. Such cases as this are not unlikely to happen when London houses supply small country tradesmen, and draw bills on them. When a man has established a good character, it is impossible to require information about every bill before it is discounted; but we do not hesitate to say, that it is of the first importance that a banker should be constantly probing his customers' accounts, and get information of the persons they draw upon. It was wittily said by some one, (Lord Halifax, we believe) "that man in this world is saved chiefly by *want* of faith." This is eminently true of banking. A banker should have faith in no man. The amount of villany and rascality which is practised by means of accommodation, and fictitious and forged bills, would exceed belief, if such disclosures were made public. However, it is contrary to the policy of bankers to allow it to be known how they are robbed and cheated. Their interest covers a multitude of sins. If criminals were prosecuted according to their merits, the calendar would swell up to a frightful extent. There is, probably, no class of society who see felonies committed so frequently as bankers, and are necessitated to let them go unrepressed and unpunished. The number of unconvicted felons that go about with impunity in the commercial world is something horrible; and there is reason to fear that such things are encouraged by the too easy faith reposed in their customers by bankers. If bankers were more vigilant in scrutinizing their customers' accounts, many would have been cut short in a career of crime – of

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accumulated robberies, which generally terminate in disaster to the bank.

33. As it is contrary to all sound principles of banking to discount bills solely on the customer's respectability, as appearing from his account, so any customer should be regarded with suspicion who is not ready and willing to communicate information to his banker about his affairs. If he will not candidly communicate the state of his affairs to his banker, how can he expect him to give him assistance in the day of trouble? Some customers, however, are mightily indignant if their banker will not discount their bills on the strength of their names without regard to the acceptor. But as such a practice is contrary to sound banking, so it will invariably be found that these are not desirable customers to have, and it would be well for a banker quietly to shake off his connection with them, as, in the long run, they will probably bring him more loss than profit.

34. The banker having agreed to buy the bills offered for sale by his customer, places the amount of them to his credit, and at the same time charges him with the discount. It is also usual for him to stipulate, that the customer shall keep a certain balance in his banker's hands to meet the contingency of any of the bills being unpaid. Now, we believe that it is from ignorance, or oblivion of the fact, that cheques are drawn against mere promises to pay, that a difference is alleged to exist between "banking principles" and "issues," and all kinds of expressions which are current, which sound very specious, but are absolutely unintelligible to any one who reflects upon the details of banking business. When a banker gives his "promise to pay" to his customer in the form of a credit to his account, and permits him to put into circulation a cheque payable to bearer on demand,

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that is substantially an "issue" on the part of the banker, as much as a Bank note. As between the banker and his customer there is absolutely no difference whatever. A cheque *may* circulate as long as a Bank note, a Bank note *may* be paid in to the Bank as quickly as a cheque. The sole difference arises between the comparative number of the general public who may be willing to receive one form of payment by credit rather than the other. To those who agree to receive either form, there is no difference; in such cases, a cheque supersedes coin as effectually as Bank notes. But it will be found that a greater number of people will receive Bank notes rather than cheques, and, consequently, as in these cases, payments could not be made by cheques, Bank notes will be found to supersede the use of coin to a greater degree than cheques.

35. We have seen that the only limit to which the banker must restrain his purchases of debts with his "promises to pay," is to preserve a safe and sufficient margin between the actual coin he keeps, and the number of "promises to pay" he may be called upon to fulfil. But, even supposing that his accounts are operated upon, that his customers put into circulation orders upon him to pay cash to the bearer on demand, still it does not follow that he will have to pay these orders in actual cash. He has several chances in his favor that he will *not* have to do so. In order to save repetition, let us consider the case not of a single bank, but of several banks transacting business on the same principles, in the same locality. Each of them will have a certain amount of deposits in coin, and each of them will do business by buying debts with their "promises to pay." Now, let us consider the chances there are, that operations may be carried on without any demand for the actual coin. First, the cus-

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tomer of one bank may draw a cheque in favor of some one else, who may also be a customer of the same bank, and that customer may only pay it into his own account, and the operation will be merely a transfer of figures from one account to another, but yet will be equally effectual as if the actual coin passed. Secondly, he may pay a cheque to a customer of another bank, and that customer may pay it into his account with his own banker, and desire him to get payment of it. But the same thing may probably happen to the first banker, one of his customers may pay into his account a cheque drawn upon the second banker. When these two bankers meet, therefore, to balance accounts, they will set off these mutual claims one against the other, and pay the difference only in coin. But yet, the operations are equally effectual as if the actual coin passed; and there is no man who understands the right use of language and reason, who can deny that these mutual claims are as much circulating medium as if they were paid in coin. The same manifestly holds good of any number of bankers; and the great art in banking is taking all these chances into consideration, observing, in the first place, how many payments are actually demanded; and, secondly, if they be demanded, what proportion of them are settled and cancelled by cross claims and obligations on other banks, so as to save the use of actual coin, that a banker keeps himself in a state of propriety and safety. And these, and these only, are the considerations which limit his power of buying debts with "promises to pay."

36. Now, as we have shown that these debts may all be settled by the mere payment of differences between the mutual claims, it might so happen that they might all be equal, and no coin at all pass. It is perfectly possible that any amount of business might be settled without any

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coin at all. Consequently, we observe, that the quantity of money necessary in any country, depends very much on the method of doing business, and has no relation to the quantity of commodities. When, therefore, we read in Colonel Torrens—

"The prices of commodities, or in other words, the value of money in relation to commodities, depends upon the relation between the quantity of the circulating medium, (*i. e.*, money,) and the quantity of commodities. This relation is liable to variation from two several causes, namely, 1st, by an increase or a diminutio n in the quantity of money, while the quantity of commodities remains the same; and, 2nd, by an increase or a diminution in the quantity of commodities, while the quantity of money remains the same,"*

we can see how extremely erroneous such statements are.

37. So much for discounting bills of exchange, which consists of buying debts, and not *lending* money. A banker, however, may not always be able to find a sufficient quantity of debts to buy, to absorb all his disposable funds, or he may not choose to employ them all in that manner; and some of his customers may want a temporary loan on security, who have no bills to sell. The banker takes his customer's promissory note for the sum payable at the date agreed upon, and also a deposit of the convertible security as collateral security. He does not advance on the goods, or security itself—that is the business of a pawnbroker—but on the personal obligation of his customer, and the securities are only to be resorted to in case of the failure of the customer to pay his debt. These convertible securities are chiefly public stock, bank stock, India bonds, shares in all sorts of companies, railway, bank,

* The Principles and Practical Operation of Sir Robert Peel's Act of 1844 explained and defended, p. 64.

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insurance, &c., &c., dock warrants, bills of lading. Whenever he takes any of these as collateral security, he ought to have a power of sale from his customer, in case he fails to discharge his obligation. These loans, though often they may be made to respectable customers, are not desirable advances for a banker to make, and he should be chary in encouraging them too much, for they frequently are demanded from the borrower having locked up too much of his funds in an unavailable form; consequently, there is much danger of the obligations not being paid at maturity, and then come requests for renewals, and the banker is either driven to the unpleasant necessity of realizing this security, or else having his temporary advance converted into a dead loan.

38. Persons who seek for such advances habitually, are most probably speculating in joint stock companies' shares. They buy up shares on speculation, which they hope will advance in price; they then wish to pledge the shares they have already bought to purchase more, then, perhaps, a turn in the market comes, and the value of the whole goes down rapidly; they are unable to pay their note, and the banker may perhaps have to realize the shares at a loss. During the railway mania of 1845, a number of banks, called exchange banks, were founded expressly on this principle of making advances on joint stock companies' shares, especially railway shares; but they have all been ruined, and some of them, we believe, suffered frightful losses from the great fall in the value of railway stock.

39. The objection to such transactions in a banking point of view is that the promissory notes of these customers and their securities are not available to the banker in case he is pressed for money. Moreover, they are

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barren isolated transactions which lead to nothing; whereas, a discount account promotes commerce, and grows more profitable as the business of the customer increases.

40. There is also a very important point to be considered in the shares of many companies which are offered as collateral security, that by the deeds of the companies no property in the shares passes, except by the registration of the name of the holder in their books. Now, while the customer is in good circumstances, there may be no danger; but if he becomes a bankrupt, the banker is not entitled to retain the shares against the other creditors. If the bankrupt is the registered owner of the shares, his creditors are entitled to them, consequently, if the banker means to complete his security, he must have himself registered as the owner of the shares, and thereby become a partner in a multitude of joint stock companies, of whose condition he can know nothing. Then, perhaps, calls are made, and the banker finds that instead of buying a *security*, he has bought a *liability*, and he must pay up the calls, or forfeit the shares.

41. All such advances, therefore, should be made very sparingly, and only with such surplus cash as the banker may not be able to employ in buying good bills; and they should only be made to such persons as he believes to be perfectly safe without the deposit of the security. No banker would make such an advance, if he really believed that he should be obliged to realize the security to repay himself, as such proceedings will always make a soreness between himself and his customer, who will be averse to seeing his property sold at a sacrifice, as he may call it.

42. Advances on dock warrants, and other similar

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securities, are also liable to many similar objections, and should be very sparingly done, as they subject a banker to much trouble beyond the line of his proper business, and are indications of weakness in a customer. Many customers will expect to have loans upon leasehold or freehold property, left as security, but these are the most objectionable of all as collateral securities. Many, if not the greater portion of leases, prohibit the tenant letting the property without the written permission of the landlord, consequently such leasehold property is no security at all to a banker. Freehold property is not exposed to this disadvantage, but the process of realization is so uncertain and long, and tedious, that it is perfectly unavailable to the banker in case of necessity. In fact, we believe the best rule in all cases of loans with collateral security, (except in such instances as public stock) is to avoid, as much as possible, making them to any one who is not perfectly good without them.

43. We shall reserve some observations upon cash credits for a future chapter.

44. If temporary loans on real property are objectionable as securities to City bankers, much more so are mortgages, which are intended by their very nature to last for years. Such transactions are, therefore, chiefly confined to country bankers, and those at the West-end of London, whose connections lie more among the landed than the commercial interest, and who are not liable to be called upon so suddenly for cash.

45. Besides these operations, all of which are founded upon personal liability—all of which contain personal oligations to pay fixed sums of money, and are therefore, dealings in "currency"—bankers usually invest part of their funds in public securities, which are supposed to be more readily convertible into cash than

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others. Public securities are of two descriptions—the one "currency," such as Exchequer Bills—the other "property," such as stock, or the funds; the former being an engagement, on the part of the Exchequer, to pay a certain sum of money, like any other bill; and the latter being no engagement to repay any fixed sum of money at all, but only a fixed rent, or sum, for its use. The public funds are a great estate, of which the nation is tenant, and pays a rent for it, solely guaranteed by the public faith.

46. Each description of public securities has its advantages and disadvantages. The interest on public stock will be found, in the long run, to be higher than those on other descriptions of public securities; but there is this serious consideration, that the value of these stocks is so extremely fluctuating, that when any public crisis comes, and bankers wish to *sell* their stock, they may sustain very great loss. In the week of the great crisis of 1847, when many banks had to sell stock, to provide for contingencies, the losses were immense when they bought in again, to replace it. Another disadvantage regarding stock is, that all the transactions of bankers must become known, as they have to transfer it. Exchequer Bills have this advantage, that a banker can deal in them without its being known to any one but the broker. Exchequer Bills, being, like any other promissory notes, an engagement of the Government to pay a definite sum of money, it is not probable that the banker can ever lose so much on them as on stock. In order to prevent Exchequer Bills falling to a discount, they always bear interest, and in consequence of this, are usually at a premium; and when, by the change in the market rate of interest, they fall to a discount, the interest upon them is

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usually raised. From these circumstances, the profit of investing in Exchequer Bills is less than that from stock.

47. Bankers collect money from those who have it to spare, and advance it, or its equivalent, to those who require it. They may sometimes, themselves, be in a similar predicament. Sometimes they may have more by them than they have employment for; sometimes, from unusual demands, they may be in want of temporary advances. There is a class of persons who undertake this great equalizing process—namely, the bill brokers. They go the round of the bankers every morning, and borrow from those who have to lend, and lend to those who want to borrow.

48. At the present day, the principle of association has been developed to a much greater degree than ever it was before. Companies are being formed for all manner of purposes. When these Companies apply to open an account with a banker, it will generally be found that they want accommodation. But a banker should very rarely indeed accommodate the *Company*, of whose affairs he can know very little. He should never grant accommodation to such a Company, unless he is well assured of the responsibility and respectability of the directors themselves; and if he allows the Company to have accommodation, it should be only on the personal liability of the directors. He should require from them a joint and several note, payable on demand, reserving his right against the Company only as a collateral security. This course will be found to be attended with many advantages, because if anything goes wrong with the Company, he has an immediate remedy without any trouble. Whereas, if the Company goes into the Winding-up Court, it will be a considerable time before

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his claim can be settled; and then there may be some technical objection. The contributors may say that the directors had no right to borrow, or that they have exceeded their powers; and then he may have to contest his claim through a number of different courts, bringing him nothing but vexation and anxiety.

49. The preceding observations apply chiefly to the way in which banking accelerates and aids the commerce of the country generally. Besides these benefits to the community at large, bankers perform many useful duties to their customers. They, in fact, perform many of the duties which belong to a merchant's clerk. Not only do they keep his cash, and make regular entries of all his receipts and disbursements, but they undertake to collect all his bills, and other obligations for him. In a large mercantile house, this is a matter of great importance in more ways than one; because, not only is there much trouble involved in it, but there are several nice legal points connected with bills, which every one who deals with them must know. When customers have bills due to them, they have nothing to do but to give them in charge to their banker, and he undertakes to do all that is requisite to get payment of them; and if he fails in any of the legal requisites, so as to exonerate any of the parties who are liable on the bill by which his customer may suffer damage, he becomes, himself, responsible to his customer. The saving of time, expense, and trouble to the mercantile community must be enormous.

ON THE CLEARING HOUSE.

50. Every bank in London which is not a member of the clearing house, sends out, the first thing in the

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morning, to collect the obligations it holds due from all other banks. The Metropolis is portioned out into certain "walks," and it is the duty of a particular clerk to collect all the bills, cheques, &c., within his walk. As clerks start from each bank simultaneously, every bank must be prepared to meet the claims of every other bank in the Metropolis. These are called *banker's charges*, and they are paid usually in Bank notes, in some cases by cheques drawn upon the Bank of England. The slightest reflection will show the waste of Bank of England notes caused by this barbarous and clumsy method of settling banker's charges. It is evident that a very large amount of Bank notes might be saved, if the bankers had some method of balancing their claims against each other, and settling only the difference in Bank notes. What the amount of Bank notes which are positively wasted by this method may be, is not very easy to tell. It was stated in evidence before the Committee of the House of Commons on one occasion, that one Bank alone, the London and Westminster, was obliged to keep £150,000 of notes for this very purpose, which by a better method might have been set free, and would have, to all intents and purposes, been so much additional trading capital. Now, if this Bank alone was obliged to keep this enormous sum unprofitable, what must have been the total amount wasted in this manner by all the bankers? We cannot believe that we at all over-estimate it if we place it at least at £1,000,000.

51. About 1775, the inconvenience of sending out to collect these charges led a number of the city bankers to organize an exchange among themselves, on a similar plan to that already practised among the banks in Edinburgh. They met in a room, and exchanged their mutual claims against each other, and paid only the difference in

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cash, or bank notes. It is stated in the Bullion Report,* that in the year 1810, there were 46 bankers who cleared; that the average amount of drafts, &c., passed through the clearing house every day was about £4,700,000, and that all the balances on this account were settled by about £220,000 in Bank notes. The clearing house was merely an assemblage of private bankers; the Bank of England was never admitted to it, and is not to this day. When the joint stock banks were instituted in the city, they were equally excluded until 1854, when the intolerable inconvenience caused to them by the large amount of notes they had to keep idle to meet the "charges," set a question afloat of organizing another clearing house among themselves. Moreover, it is said, that the private bankers, themselves, felt the inconvenience of the heavy "charges" of the joint stock banks. Partly owing to these circumstances, and partly, we hope, owing to the feeling against the joint stock banks having abated, the London and Westminster, the Union, the London Joint Stock, the London and County, and the Commercial Banks, were admitted to the clearing house in August 1854, and the Royal British, and the Southwark Branch of the London and Westminster, in August, 1855. The latter being remarkable, not only as a branch of a bank being treated as an independent bank, but also as not being in the city of London. At the present time there are twenty-five private bankers and seven joint stock banks in the clearing house.

52. The mode of doing business is as follows. The bills and cheques which each banker holds on the other clearing banks, are sorted in separate parcels; and at 10·30, a clerk from each bank arrives at the clearing

* Evidence of Mr. Thomas. p. 151.

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house. He delivers to each of the other clerks the obligations he has against his house, and receives from each the obligations due from his own. When these obligations are interchanged, each clerk returns to his own bank. The same process is repeated at 2·30. Each bank has till 4·45 to decide whether it will honor the drafts upon it; if it does not return any drafts upon it before that hour, it is held to have made itself liable on them to the clearing house. At 4·45 the business closes, and the accounts are made up; and so admirable is the system, that in settlement of the claims *not a single Bank note or sovereign passes.*

53. Each clearing bank keeps an account at the Bank of England, and the inspector of the clearing house also keeps one. Printed lists of the clearing banks are made out for each bank, with its own name at the head, in the following manner :—

ROYAL BRITISH.

DEBTORS.				CREDITORS.			
			Barclay				
			Barnett				
			Bosanquet				
			Brown				
			Commercial				
			County				
			Currie				
			Dimsdale				
			Fuller				
			Glyn				
			Hanbury				
			Hankey				
			Heywood				

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DEBTORS.				CREDITORS.		
			Joint			
			Jones			
			London and Westr.			
			L. and W. Southwk.			
			Lubbock			
			Martin			
			Masterman			
			Prescott			
			Price			
			Robarts			
			Rogers			
			Sapte			
			Smith			
			Spooner			
			Stevenson			
			Union			
			Williams			
			Willis			
			C. H.			

The clerk of the clearing house then makes up the accounts between each bank, and the *difference* only is entered in the balance sheet, according as it is debtor or creditor. Thus, in the example given above, the mutual claims of the Royal British and Barclay are balanced. If the Royal British is debtor to Barclay, the difference is entered on the left hand side. On the other hand, if it is creditor to Barnett's, the difference is entered on the right hand side, and so on through the rest. A balance is then struck between the debtor and creditor columns, and the paper delivered to the clerk, who takes it back to his own bank. The balance then is not paid to, or received from, the other bankers as formerly, but it is

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settled with the clearing house, which keeps an account itself at the Bank of England. The accounts are settled by means of a species of cheque appropriated to the purpose, called *transfer tickets*. They are of two colours, white and green, the white when the Bank has to pay a balance to the clearing house, the green when it has to receive a balance from it. They are signed by some authorized official of the Bank. Thus, if the Bank is debtor on the balance, it gives a

White Ticket:

SETTLEMENT AT THE CLEARING HOUSE.

London, 185

To the Cashiers of the Bank of England,

Be pleased to transfer from our Account the sum of

and place it to the credit of the Account of the Clearing Bankers, and allow it to be drawn for by any of them (with the knowledge of either of the Inspectors, signified by his countersigning the Drafts).

£

SETTLEMENT AT THE CLEARING HOUSE.

BANK OF ENGLAND,

185

A TRANSFER *for the sum of*

has this evening been made at the Bank, from the account of Messrs.

to the account of the Clearing Bankers.

For the Bank of England.

£

This Certificate has been seen by me.

Inspector.

If the bank is creditor on the balance, it gives a *Green Ticket:*

Settlement at the Clearing House.

London, 185

To the Cashiers of the Bank of England.

Be pleased to CREDIT our Account the Sum of

out of the money at the credit of the account of the Clearing Bankers.

£

Seen by me,

Inspector at the Clearing House.

Settlement at the Clearing House.

BANK OF ENGLAND,

185

The account of Messrs.

has this evening been CREDITED *with the Sum of*

out of the money at the credit of the account of the Clearing Bankers.

For the Bank of England

£

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By this means transactions to the amount of several millions daily are settled without the intervention of a single bank note.

54. The two methods which London bankers have of settling their mutual claims, which we have described, by collecting the charges in the morning, and by the clearing house, suggest several important reflections upon the circulating medium, and the Act of 1844. That Act fixed the sum of £14,000,000 as the limit below which the requirements of business would probably not permit the internal circulation to fall. But, there is this objection to it, that it was *fixed with reference to a particular method of doing business.* If all the London bankers were admitted to the clearing house, there would immediately be at least £1,000,000 of Bank notes disengaged from business, and they would either disappear from circulation altogether, or else they might be employed as fresh capital in discounting bills and making loans. On the other hand, let us suppose the clearing house dissolved, and the clearing banks to revert to the barbarous method of settling their mutual claims practised by the non-clearing banks, at least one million, probably considerably more, of Bank notes would be required to settle their claims. We are satisfied that between these two extreme methods of transacting business—either there being no clearing house at all, and all the banks demanding payment from each other of their claims in Bank notes, and, on the other hand, all the banks entering the clearing house, there would be a difference of Bank notes necessary to transact the same amount of business of not less than £3,000,000. Now, it is perfectly manifest, that if the clearing house were dissolved, the additional quantity of Bank notes necessary to transact business would not in any way affect prices or business ; nor if all the banks were to enter it, could

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the quantity of Bank notes withdrawn from circulation affect prices or business. Consequently, we observe, that the quantity of Bank notes requisite to transact business, depends very much on the particular method of settling claims.

55. It appears, then, to us, to be a fundamental and philosophical objection to all attempts to fix the numerical amount of Bank notes which may be issued by the Bank, that it depends very much on the method of doing business what amount will be required. Consequently, if any Act fixes that amount, and a change takes place in the method of doing business, it must necessarily be fatal to the principle of such an Act. And these remarks touch not merely the Act of 1844, but some of the objections to it; for, in the first place, if the method of doing business upon which the Act is founded, be improved so as to dispense with a large quantity of the notes permitted to be issued by the Act, the Act fails in this—that it contains no power to compel these notes which are so disengaged, to be withdrawn from circulation, which, if the principles of the Act were true, would be a redundancy of the currency. On the other hand, those persons who complain of the restricted amount allowed to be issued by the Act, should, in the first instance, economise the use of those already permitted to be issued to the greatest possible extent, before they demand new issues. Now, an improved method of doing business by the London bankers would certainly liberate a very large amount of Bank notes, which are at present, as we may say, wasted, and afford so much relief to the alleged contraction of the currency.

56. The operations of the clearing house also enable us to dispel a very prevalent error among those persons who maintain that bills of exchange are not "currency"

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or circulating medium, because they can only be discharged by payment of money. Even if such an assertion were true, it would not affect the question in any way, but the assertion itself is wholly erroneous. It is not true, that bills of exchange can only be discharged by payment in money. Bills of exchange to the amount of £1,500,000 are daily discharged without any coin whatever, just in the same manner as cheques are. A bill of exchange, on the day it matures, becomes a cheque; a cheque is nothing but a bill of exchange payable to bearer on demand. Now, let us take the case of a wholesale dealer who accepts bills to a manufacturer, and draws bills upon retail dealers. When he opens a discount account with his banker, he brings the bills he draws upon his own customers, the retail dealers, and sells them to his banker. He also makes the bills drawn upon himself payable at his banker's, and the proceeds of the bills he sold are appropriated to the payment of the bills he has to meet. Now, he knows when the bills he has accepted fall due, and he takes care to sell some bills to his banker to meet them. The banker, as usual, buys these bills, by merely writing so many figures—so many "promises to pay"—to the credit of his customer. Now, if this banker is a member of the clearing house, and the banker who presents his customer's acceptances for payment, is also a member of it, they are presented through the clearing house, and fall into the mighty mass of transactions which are settled by its means, without any intervention of coin, or Bank notes.

57. Now, when we see that cheques are merely substitutes for Bank notes, that in every case where a cheque now passes, Bank notes would be required if cheques had not existed; when we also see that a bill of

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exchange on the day it is payable becomes a cheque, which is equivalent to a Bank note, it follows very clearly that all the obligations interchanged at the clearing house form an integral part of the circulating medium. Their being exchanged at the clearing house can make no difference to what they would be if they were presented and paid by each banker. For they have all done their duty *before* they arrive at the clearing house, they have caused commodities to circulate, perhaps many more times than once, before they come to be discharged.

58. Bank notes and cheques are no doubt only particular varieties of promissory notes and bills of exchange; but as they are peculiarly banking documents, in fact, the issue of Bank notes and cheques is the essential feature of "Banking," we shall treat of them here separately.

ON BANK NOTES.

A Bank note is a promissory note issued by a banker, promising to pay the bearer on demand a sum of money stated on the face of it, and intended to circulate as money.

The Act of 1844 being founded upon certain principles of currency, and being for the express purpose of restraining the circulation of Bank notes, it was seen that paper obligations might be fabricated and circulated, which were Bank notes in everything but the form. Hence, in order to put a stop to the possibility of this, the late Stamp Duties Act, Statute 1854, c. 83, s. 11, defines what shall be considered to be a Bank note. It says: "In order to prevent evasions of the regulations and provisions of the said respective Acts, it is expedient to define what shall be deemed to be Bank notes within

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the meaning thereof respectively. Be it enacted, that all bills, drafts, or notes (other than notes of the Bank of England), which shall be issued by any banker, or the agent of any banker, for the payment of money to the bearer on demand; and all bills, drafts, or notes so issued, which shall entitle, or be intended to entitle the bearer or holder thereof, without endorsement, or without any further, or other endorsement than may be thereon at the time of the issuing thereof to the payment of any sum of money on demand, whether the same shall be so expressed or not, in whatever form, and by whomsoever such bill, drafts, or notes, shall be drawn or made, shall be deemed to be Bank notes of the banker, by whom, or by whose agent, the same shall be issued, within the meaning of the Banking Acts."

No bank may issue any such note for any less sum than £5, nor can any bank which was not issuing its own notes before the 6th May, 1844, commence doing so after that date.

Bank notes are negotiable instruments, transferable by delivery; that is, the property in them is passed by mere delivery, without any writing.

Bank of England notes are legal tender, or legal payment of a debt—so long as the Bank pays its notes in legal coin—except by the Bank itself, or any of its branches.

Country bank notes are *not* legal tender, although they are intended to circulate as cash.

Nevertheless, it is a rule of law, that if any person takes a negotiable instrument payable to bearer, *i. e.*, transferable by delivery, in payment of a debt, without requiring the person he receives it from to endorse it, and, if the maker of the note, or the acceptor of the bill

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fail, the holder of it has no remedy against the person he received it from.

Unless the transferer knew that the banker had failed, for that would be a fraud.

Therefore, if any person takes payment in a country bank note, without requiring the payer to endorse it, and the banker fail before presentment for payment, the holder has no remedy, even though the banker had failed before the payment was made.

If, however, the receiver required the payer to endorse it, and he, on presenting it within reasonable time, finds the banker has failed, his remedy is preserved.

A *donatio mortis causâ* is, where a person believing himself to be mortally ill, and shortly about to die, delivers over any chattels to another person, with power to keep it if he dies, but to be restored if he recovers. All goods and chattels may be subjects of a *donatio mortis causâ*, such as money. But a mere *chose in action*, or right to recover, cannot be made so. Bank notes, however, are an exception to the rule, they are treated as cash or money, and may be the subject of a *donatio mortis causâ*.

Bills or notes could not, at common law, be taken in execution at the suit of a subject, but, now, by Statute, 1838, c. 100, s. 12, money, Bank notes, and all other securities for money, may be taken in execution under a *fieri facias*.

All bills and notes payable to bearer, circulate as money, and are treated as such, and the property and possession of such instruments is inseparable, like that of money. Now, if a man steals a bag of sovereigns, *he* has no property in them, and they can be recovered from him; but if he goes into a shop, and buys goods with

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them, or if he pays them away to another person, who takes them *bonâ fide*, the receiver has the right to keep them against all the world. Exactly the same rule holds good with regard to bills and notes payable to bearer, or which have become payable to bearer. Though the person who steals them, or finds them, has no right upon them, and they may be recovered from him, yet if he passes them away for value, the person who gives value for them, *bonâ fide*, and not under circumstances calculated to excite suspicion, is entitled to retain possession of them against all the world, and to enforce payment from the parties liable.

However, if a party be merely an *agent* for another, he can have no property which his principal had not. Consequently, if a party pay a stolen note into his account with his banker, the banker cannot retain possession of the note, even though it be one in payment of a previous debt from the customer to the banker.

If a person loses a Bank note, or a cheque, he should give immediate notice to all parties, and advertise its loss. For, if any one takes it with notice of the loss, such an act of gross negligence may amount to fraud, and prevent him from recovering. The loser, however, has no remedy against the parties liable.

A banker has no right to refuse payment of his note to any one who presents it, even though he has had notice it has been stolen, and payment of it has been stopped. If he refuses payment of it, he can only do so for the purpose of making the holder of it prove the consideration he gave, for the benefit of the true owner.

A Bank note is a debt due by the banker to the holder of the note; it is consequently subject to the Statute of Limitations like other debts, and cannot be

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recovered from the banker after six years from the date of its issue.

The general rule is, that the transfer of a negotiable instrument payable to bearer, without endorsement, does not preserve any liability against the transferer, still he warrants that it is a *genuine* instrument, that it is not a forgery or fictitious, he does *not* warrant the solvency of the acceptor, but he does warrant that the document is genuine. Consequently, even if he does not endorse it, he is liable if it turns out to be a forgery.

The rule that a person receiving a Bank note without endorsement, has no remedy against the persons he receives it from, in the event of the banker failing before presentment, only applies in the case where the goods are sold, and payment is made simultaneously. But, if it be given in payment of an antecedent debt, and the banker fail before due presentment of the note, and due notice is given of the dishonor, the payer is still liable on the pre-existing consideration.

ON CHEQUES.

59. A cheque is a substitute for a Bank note. A Bank note is a promise by the banker to pay the bearer a sum of money on demand—a cheque is an order to a banker to pay a sum of money to bearer on demand.

A cheque is a bill of exchange, and, consequently, as such would be liable to the stamp duties. For the convenience of trade, however, cheques are exempted from the stamps payable on bills of exchange, on condition that they strictly comply with certain rules defined in the Act. They are:

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1. That they be an order for the payment of money, and not bills or notes.
2. That they be made payable to bearer on demand.
3. That they be drawn upon a banker, or upon persons acting as bankers, who shall reside, or transact the business of banking, within fifteen miles of the place where such cheques are issued.
4. That the place where they are issued, shall be truly stated upon them.
5. That they be issued the day, or the day after the day, they bear date.

It is absolutely requisite that every instrument purporting to be a cheque, should strictly comply with all these conditions, because if it does not, it immediately becomes an unstamped bill of exchange; and every person issuing an instrument purporting to be a cheque, and not strictly complying with all these conditions, subjects himself to a penalty of £100; every person knowingly taking it to £20, and the banker knowingly paying it to £100, and he is not allowed to charge it against the person by whom, or for whom it is drawn, or against any one claiming under them respectively.

60. It is a general rule of *English* law, contrary to that of most other countries, that no debtor is bound to accept a bill drawn upon him by a creditor, or to pay it, without accepting it. A banker, however, is an exception to this rule; he is bound to pay his customers' cheques and bills without acceptance, and without notice, if he has funds sufficient in his hands; and if he has had them a sufficient time in his hands for his clerks to have notice of the fact. What is a reasonable time has never

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been defined. It would seem to be sufficient time for the payment to be entered in the ledger. In the case of *Marzetti* v. *Williams*, two hours were held to be *more* than reasonable time; for money having been paid in at one o'clock, more than sufficient to cover a cheque which was presented at three o'clock, and dishonored, the jury found a verdict against the banker, with nominal damages.

61. Refu ing a man's cheque is a slur upon his credit, and, in some cases, may have very serious consequences to him. Now, in the hurry of business, a mistake will sometimes occur, especially if customers keep very small balances, and draw against them very soon after they have paid them in to their account. Considering the enormous multitude of transactions that take place by means of cheques, and the number of times that such unfortunate accidents have happened, it might have been thought that the legal effects of such an accident would have been definitively settled. But this is not the case. In the case of *Rolin and another* v. *Steward, P. O.*, the plaintiffs were merchants and ship-owners, carrying on business at Lynn, and accepted a bill of exchange for £48, payable at the London and Westminster Bank, Lothbury, the London agents of the country bank, of which they gave them informatio 1 before hand. Moreover, the country bank had dishonored three cheques of the plaintiffs, having, at the time, sufficient funds to meet them. The case was tried at Norwich, before Lord Campbell.* No evidence was given to prove the special damage alleged, and Lord Campbell directed the jury to give the plaintiffs, not nominal nor extravagant, but reasonable and temperate,

* 23. L. J., C. P., p. 148.

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damages. The jury (a common one) gave £500 damages. A rule *nisi* was obtained for a new trial, on the ground of misdirection and excessive damages; but the rest of the Court unanimously upheld the ruling of the Lord Chief Justice, and a new trial was refused. All the judges held, that refusing a trader's cheque wrongfully was an act so damaging to his credit, that he was entitled to substantial damages, even though none were proved. Williams, J., said, that it was "on the same principle as that, on which it is held, that to impute insolvency to a trader, is actionable, without proof of special damage. If the law were not so, this absurdity would follow. A trader might bring his action against a man for saying of him, that his cheques had been dishonored, and the action would be successfully defended by the banker proving the truth of the slander; and yet the trader would have no substantial remedy against the banker, who had dishonored his cheques, and enabled the defendant to defeat the action." In another case,* however, Lord Chief Justice Jervis laid down a very different doctrine. For, he said that this question had been much discussed among the judges lately, and that the rule now was, that in such cases, special damage must be laid and proved. The plaintiff's counsel tendered a bill of exceptions to this ruling. The jury (a special one) gave a verdict for the bank on other grounds, and the case has never gone any further.

62. The holder of a cheque has a reasonable time to present it for payment, and this is considered to be not later than the day after he has received it. If he does not present it for payment within that time, and the

* Davis *v.* The Royal British Bank. The *Times*, 10th July, 1854.

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banker fails, he has no recourse against the drawer, or issuer.

The liabitity of the drawer, or issuer, of the cheque, cannot be extended beyond the time allowed to the first holder to present it for payment. But as a cheque circulates, in many cases, exactly like a Bank note, the last receiver of it will be entitled to the same amount of time as against the last transferer.

It is not only not *usual* for bankers to *accept* cheques, and thereby make themselves liable upon them at all events; but it would be a most flagrant violation of the law for them to do so. The monopoly conferred upon the Bank of England, especially prohibited any bank composed of more than six partners from owing money on their bills, or notes, payable less than six months after their issue. The London and Westminster Bank tried this soon after their institution, but were beaten by the Bank of England. Now, though bankers never accept cheques, in the usual manner of writing their names across them, still, there is a custom of *marking* cheques as good, among bankers, which is held to be equivalent to an acceptance, and to bind the banker to pay it. And it is said, that the holder of a cheque may avail himself of this mark as a valid acceptance, provided it amount to a writing within the 1 & 2 Geo. IV., c. 78, sec. 11.* If, however, this be the case, the practice of marking cheques is a direct violation of the Act of 1844; for that Act expressly provides, by Section 11, that after the passing of it, no banker in England or Wales should draw, *accept*, *make*, or issue, in England or Wales, any bill of exchange, or promissory note, or *engagement for*

* Byles on Bills of Exchange, p. 15. 5th Edition. In the case of *Robson v. Bennett*, 2 Taunt. 338, this marking was held to amount to an acceptance by the Banker.

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the payment of money payable to bearer on demand. Now, as marking a cheque is held to be a valid obligation on the banker to pay it, it is quite clear that, *it is making an engagement for the payment of money, payable to bearer on demand,* and consequently, an undoubted infraction of the Act of 1844. In fact, the door it opens to an unlimited issue of Bank notes in disguise is so palpable as to require nothing more to be said about it.

Cheques, like Bank notes, are payment, unless dishonored.

If a customer dies, the banker is *not* to pay any of his cheques after he has received notice of the death, but such as he has paid before notice are valid. We cannot help thinking that this is a most unreasonable doctrine; for surely, when a man has put a negotiable instrument into circulation, it is difficult to see what effect his death can have on the nature of the debt.

A banker is not only liable to his customer if he pays a forged cheque, but even if the amount of the cheque has been fraudulently altered, and increased, he cannot charge the customer with the excess. But if the customer has drawn his cheque in such a negligent way as to facilitate fraud, the banker will not be liable; as for instance, if he leaves a blank space so that any one can insert more words and figures in it, the customer himself would be liable.

If several persons, not being partners in trade, have common funds in a bank, they must each sign the cheque. If any of them abscond, the others will be able to receive the money in equity.

A cheque cannot be made the subject of a *donatio mortis causâ;* but if the payee receive the money before the donor's death, or before the banker has notice of it, it will be valid.

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If a cheque be offered in payment a long time after it is dated, that no doubt would be a circumstance which should excite caution in the person to whom it was offered, and he might be considered guilty of negligence in taking such an instrument, and be liable to refund the money if it were proved to be stolen. In one case, a tradesman took a cheque for £50 in payment of goods five days after it was dated, he took the cheque to the banker, who paid it. It afterwards turned out that the cheque was stolen, and the shopkeeper was obliged to refund the money, on the principle which applies to bills of exchange, that whoever takes a bill after it is due, takes it with all its equities, *i. e.*, he cannot have a better title than the transferer. But we cannot believe that such a doctrine would be held to be law at the present day.

Until very lately, it was illegal to draw a cheque for less than twenty shillings, or negotiate one upon which less than twenty shillings remain unpaid. But these prohibitions have been repealed by Statute 1854, c. 83, s. 9, and it is now legal to draw a cheque for any amount, however small.

It was enacted that no person should draw and issue a cheque upon his banker at a greater distance than fifteen miles from his banker's place of business. Thus, if the customer of a London banker happened to be in Edinburgh, it would have been illegal to draw and negotiate a cheque upon his banker, in Edinburgh; but, suppose that a man living in London owed a debt to a person living in Edinburgh, and sent a cheque by the post to his creditor in Edinburgh, it was doubtful whether the cheque was to be held to have been issued in London, where the letter was posted, or in Edinburgh where it was delivered. It is held now, however, that the cheque is to be considered as issued in the place where the letter is *delivered*.

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Consequently, it is illegal to send a cheque upon a London banker by post to Edinburgh in payment of debt due there; and whoever does so subjects himself to a penalty of £50.

However, in order to facilitate commerce, it was enacted by Statute 1854, c. 83, s. 8, that such cheques might be negotiated at any distance by affixing a penny draft stamp.

63. In order to add to the security of cheques, and to prevent their falling into the hands of persons who have no right to them, and being paid to them, a practice has sprung up of writing the name of a banker across them; the intended effect of which is, that the drawer's banker should only pay it to the banker whose name is written across it. This is called *crossing* a cheque. It is obvious, that if the drawer crosses it, it will be in the name of the payee's banker. If, however, that payee pays it away to some one else, the holder is entitled to erase the name with which it is first crossed, and substitute the name of his own banker. And so may any holder. This being the case, it has become usual, in the first instance only, to write the words "& Co.," leaving the particular banker's name to be filled up before presentment. At all events, the object of crossing a cheque is to insure its being presented by some banker who would be sure of the respectability of the person into whose hands it had come.

64. This practice is almost universal; but it is extraordinary that it has escaped observation, that it is one of the most flagrant violations of the Stamp Act that it is possible to conceive. We have seen that a cheque is only exempted from stamp duty upon complying with some very strict conditions, and every negotiable instrument put into circulation without a stamp, under colour

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of being a cheque, subjects all parties concerned in negotiating it to very heavy penalties.

Now, one of the essential requisites of a cheque is, that it must be PAYABLE TO BEARER ON DEMAND. Now, *is a crossed cheque payable to* BEARER *on demand?* Unquestionably it is *not* intended to be so. It is intended to be only paid to the banker whose name is written across it, on demand. Now, if a man were to put into circulation an instrument purporting to be a cheque, leaving out the word "bearer," he would subject himself to a penalty of £100. If he were to write a cheque payable to "Jones Loyd and Co. on demand," he would be liable to a penalty of £100. If he were to write across the cheque in express words "*This cheque is only to be paid to Jones Loyd and Co.*," that would subject him to a penalty of £100. Now, that is the intended effect of crossing the cheque. The intention of crossing the cheque is to restrain its negotiability; it is to say, that it shall *not* be payable to bearer, but only to Jones Loyd and Co.

65. A considerable amount of ingenious sophistry has been expended, to show that the effect of crossing the cheque is not to restrain its negotiability, but that the banker is only the agent of the bearer, who has a right to receive it; but this is to confound the difference between the *holder* and the *bearer*. The *holder* of an instrument is the person *legally* entitled to receive payment; but the *bearer* is merely the person who presents it for payment. When the law says, that a cheque must be made payable to *bearer* on demand, the law means that the banker is bound to pay it to whoever presents it for payment across the counter, unless, indeed, there be circumstances to excite a justifiable suspicion that the bearer has not come by it honestly.

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66. It is also sometimes alleged, that as the holder may substitute the name of any banker he pleases, instead of the one already upon it, that it does not restrain its negotiability. If every man kept a banker, this argument might be more specious, but it is notorious that every man does *not* keep a banker; and, consequently, even admitting the privilege of substituting one banker's name for another, it restrains the negotiability of the cheque among the circle of persons who keep a banker. No man who did not keep a banker could receive a crossed cheque in payment, for he has no means to obtain payment of it.

67. It is perfectly clear, that crossing a cheque with the intention which is so well known, *vitiates it, and makes it a void instrument*, and that whoever negotiates such a cheque incurs a penalty of £100. The question is, what is a banker to do if a person comes in and presents a crossed cheque across the counter, and demands payment for it? It is enacted, that if a banker pays an illegal instrument, purporting to be a cheque, he is liable to a penalty of £100. Now, when a crossed cheque is presented for payment, if he chooses to recognize the intended effect of the crossing, he may treat it as a void instrument altogether, and refuse payment of it. Or, secondly, as the hieroglyphic used in crossing has no legal meaning, he may disregard it altogether, and treat it as a *bonâ fide* cheque, payable to bearer, drawn by his customer, and pay it to the bearer.

68. A banker would, we believe, be justified in adopting either course; nor could his customer have any action against him for paying a crossed cheque across the counter, on the ground that it should only have been paid to a banker, because that would at once be a self-crimination on the part of the customer, of having vio-

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lated the Stamp Act. Either of these courses, then, is open to the banker; but there is one course he must *not* adopt, namely, to refuse payment of it, on the ground that it is only payable to another banker; for, if he pays it to another banker *knowingly*, that it is only intended to be paid to a banker, he makes himself *particeps criminis*, and is liable to a penalty of £100.

69. There can be no doubt that the whole system of crossing cheques, at present so extensively used, is a gross infraction of the plain words of the Stamp Act, and that all persons issuing, receiving, and paying crossed cheques, knowing the intention of the crossing, are liable to heavy penalties. The practice of crossing cheques is supposed to confer much additional security upon these instruments; but if it be so important in cheques, why should it not be equally important as regards other bills of exchange? And yet we never hear of crossed bills, or Bank notes. Whether it be desirable that the system of crossed cheques should be maintained is one question; if it be so, it can only be done by express Act of Parliament.

70. If the banker, however, is justified in adopting either of these courses, to pay, or not to pay, a crossed cheque, upon the grounds above specified, the course of the holder of the cheque, if he wants to obtain payment, is equally clear. As the crossing is a mere cabalistic sign, and has no legal effect, he is entitled to erase it altogether, and demand payment of the cheque. We think that there can be no doubt that the holder of a crossed cheque, who had erased the crossing, and presented it for payment, would have an action against the banker for refusing to pay it, if he had funds of his customer's in his hands. The holder of a bill of exchange, even if it be stolen, is entitled to enforce payment of it

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against all parties upon it, provided he came by it honestly. The same rule holds with a cheque; a lawful holder of a cheque is entitled to enforce payment of it from the banker who has funds in his hands, to pay it. Nor could his customer have any action against him for paying it; for, if he put his cheque into circulation, having crossed it with the intention of making it not payable to bearer on demand, he thereby convicts himself, out of his own mouth, of having committed an offence against the Stamp Act.

71. The question of crossed cheques has come before the courts several times within the last few years; and we may make a few remarks on one of the cases which went to the Court in Banc.* Mr. Bellamy and Mr. Forster were trustees of a gentleman who died a lunatic; and they opened an account with Coutts and Co., for the purposes of the trust. A suit was pending in the Court of Chancery with reference to the trust. The other parties to the suit were the next of kin to the lunatic, and their solicitor was named Geary. In 1845, Geary brought a cheque for £2596 17s., written out in the usual way to the solicitor for the plaintiffs. The solicitor sent it down to Mr. Bellamy, who was staying in the country, who added the words, "General Unpaid Costs Account," to the end of the body of the cheque; and crossed it, "Bank of England, for account of Accountant-General." It was then sent to Mr. Forster, to be signed by him; and having been so, it was delivered back to Geary. The latter, on the day he received it, struck out the crossing made by Mr. Bellamy, by running his pen through it, leaving it, however, perfectly

* *Bellamy and another* v. *Marjoribanks and others*. 7 Excheq. Rep., p. 389.

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legible, and crossed it with the name of his own bankers, Gosling and Co., and paid it in to the credit of his own account. The next day the clerk of Messrs. Gosling and Co. presented it for payment at Messrs. Coutts and Co., who paid it, and debited it to the account of the plaintiffs. Geary never paid the money to the Accountant-General, but appropriated it to his own use, and the plaintiffs were obliged to make it good. The plaintiffs sought to make Coutts and Co., liable for paying the cheque, contrary to the alleged custom and usage of London bankers. The judge who tried the case, put the question in writing to the jury, whether there was a custom and usage, and consequently, a duty on the defendants, not to pay the cheque otherwise than into, and through the hands of the Bank of England; and whether the defendants were guilty of negligence, in paying the cheque to Messrs. Gosling and Co. The jury found both the questions, in the affirmative, and a verdict was entered for the plaintiffs.

72. A new trial was moved for, on the ground, that the verdict was against the weight of evidence, and it was granted; and the Court took time to consider what the effect of crossing a cheque was. It was contended, for the plaintiffs, that there was a custom and usage of bankers, to pay crossed cheques only to the banker whose name was written across it. The Court said, "We are of opinion, that no such custom was proved." They further said:

"A custom such as that alleged would be binding and obligatory upon all persons engaged in a certain trade, because long and universally acted upon by all persons in such trade, who may, therefore, reasonably be presumed to have made their contracts upon the faith of it. The custom alleged could only be proved by

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a long, well-known, acknowledged and universal usage and practice among bankers, to act in accordance with it, while, so far from this being the case, many witnesses from the different London banking houses, called by the plaintiffs, and all those called by the defendants, denied its existence. * * * It seems to us quite absurd to suppose that there could be any custom creating such a duty as that alleged, being absolutely binding, by reason of long and universal usage, upon all the bankers in the Metropolis, without those gentlemen being well acquainted with it. We are also of opinion, that such a custom, if proved to have existed in fact; would be incapable of being supported in point of law. The crossing a cheque cannot operate as an endorsement to the banker, whose name is used, because it was not written with any intent to transfer the property in the cheque to him, and it wants the essential part of an indorsement, the delivery of the instrument to the indorsee. And we think it cannot well be supposed that the usage is to be considered as equivalent to a direction by the holder or drawer, not to pay to the bearer, but to a particular person only; for then, the cheque would be altered in a manner which would take it out of the exemption of the Stamp Act, which applies to cheques payable to bearer only; and the bankers to whom it was addressed would not be bound to pay to the person named. We are, therefore, of opinion, that a crossing the cheque with the name of a banker cannot have the effect of restricting its negotiability to such banker alone. To hold it to have this effect, would be to render the instrument no longer a cheque."

73. The judgment then traced the origin of crossing cheques, which began at the Clearing House, and was done by each clerk upon the cheques presented by his own house, to assist the clerk in the Clearing House in making up his accounts. When this was done, the cheques were taken out of circulation, and were actually in course of payment. Consequently, there was no restraint upon the negotiability at all. But the practice afterwards spread to the public, and it was used by them,

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for the express purpose of restraining the negotiability of the cheque. The judgment then says:

"We are strongly inclined to think that, on full inquiry, the usage will turn out to be no more than this (*i. e.* that it should be paid to *a banker*) and, considering the custom in this point of view, the crossing is a mere memorandum on the face of the cheque, and forms no part of the instrument itself, and in no way alters its effect. There can be no doubt that such an usage is highly beneficial to the public. These instruments are in their essential character payable to bearer; they are in many respects treated as Bank notes, for which, of late years, they have been largely substituted; but, like all other things, they are liable to be mislaid, or lost, or stolen, and may get into the hands of persons who are not entitled to receive payment of them. It is manifestly, therefore, a great protection and safeguard to the real owner, that there should exist the means of tracing and ascertaining for whose use the money paid on a cheque is received, and to whom the money actually goes; and the payment through a banker secures this object. Bankers are, in general, persons of great respectability, and we believe it may be truly said universally, are incapable of lending themselves to any concealment, or suppression of the truth, in order to promote or assist fraud. We think, therefore, that it is a matter of great public advantage and benefit, that the custom or usage which we have already mentioned as being said to exist in point of fact, should be maintained, and we think it well may, without at all improperly trenching upon, or restricting the negotiability of cheques. We think the crossing of a cheque is a protection and safeguard to the owner of the cheque, and that in the event of a banker paying a crossed cheque otherwise than through a banker, the circumstance of his so paying would be strong evidence of negligence in an action against him. For instance, let us suppose the customer of a banker to draw, and to cross a cheque, intending to pay it to a person to whom he was indebted, and that afterwards, and before handing it over to his creditor, he either lost it, or it was stolen from him. If this cheque was presented otherwise than through a banker, then, according to the custom or usage above-mentioned, it would not be paid, but if presented by a banker, it would. The mere circum-

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'stance of the necessity of placing the cheque in the hands of a banker, would of itself oppose some impediment to a fraudulent holder in dealing with the cheque and making it available, and the fact that it could at once be traced and ascertained for whose use the proceeds were received, would give considerable aid in enabling the drawer to recover back the money, in the event of his being entitled to do so. On the other hand, if the banker disregarded the custom, and paid the cheque to a private individual, that circumstance would be strong evidence against him, in the event of his seeking to charge his customer with the payment, if the person actually presenting it, was not the lawful holder and bearer of the cheque."

74. It appears to us that this judgment is labouring under a very transparent sophism. Instead of enquiring what was the *intention* of the person crossing the cheque, and deciding whether such a practice was legal or not, according to that intention, it forms a pre-conceived opinion that the custom of crossing cheques is beneficial to the public, and it laboriously seeks to affix to the act of crossing a cheque an intention and effect which the person who did it never had. The notorious intention of Mr. Bellamy, in crossing the cheque, was to restrain its negotiability—to make it payable to no one except the Bank of England, and he thought that the hieroglyphic he put on the cheque was effectual for that purpose. If he had had any idea that it was not sufficient for that purpose, he would have written in express words a direction to that effect. The intention of every one who crosses a cheque, is that it shall only be paid to a banker. Probably not one person in ten thousand knows the legal necessity of making cheques payable to *bearer* on demand, and the heavy penalties attaching to putting an instrument into circulation, purporting to be a cheque, and not payable to bearer on demand. *The*

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very fact of saying that it is only payable to a banker, itself proves the case. For it is clearly not negotiable among persons who do not keep a banking account; and if the banker has the right to refuse payment to any one except a banker, how is such a holder ever to obtain payment at all? For no banker would undertake to present a cheque for a casual stranger. Again, if the thief keeps a banker, what protection is it? In this very case, the bearer wrongfully appropriated it to his own use. Now, we say that this judgment is manifestly erroneous, for it has omitted to say how persons who do *not* keep bankers are to enforce payment of crossed cheques. And if it be said that such persons should not take crossed cheques, then that is at once limiting the negotiability of the cheque.

75. But the judgment then proceeds to commit a most flagrant error in law; for it proceeds:—"The lawful owner of a cheque is of necessity entitled to receive payment of it. He could not sue the drawee, *unless he had accepted the cheque*—A PRACTICE NOT USUAL, BUT LEGAL—but he could sue the drawer for non-payment of it, if he was the holder for value."

A learned judge, not very long ago, said that the law compelled every man, especially a judge, to *know* all the law, but it could not compel him always to *remember* it. This last paragraph expressly says, that it is not *usual* for bankers to accept cheques, but that it is LEGAL for them to do so. Unfortunately, the Court of Exchequer *forgot* the eleventh section of the Act of 1844, which expressly says:—That from and after the passing of this Act, it shall not be lawful for any banker to draw, ACCEPT, MAKE, or issue in England or Wales, any bill of exchange or promissory note, or ENGAGEMENT FOR THE PAYMENT OF MONEY PAYABLE TO BEARER ON DEMAND."

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The omission is so plain, that we need say no more about it; but that it is perfectly illegal for a banker to accept a cheque.

76. This latter extract, however, touches upon a point which, we think, has never been sufficiently discussed, and it would be very advantageous to have some more definite decision on the subject. It is this: "What are the rights of the holder of the cheque, if any, against the banker in case of his wrongful refusal to pay a cheque?" We are aware that there is no case on the subject, and that it is commonly supposed that the holder of a cheque has no remedy against any one but the drawer of it, in case of its non-payment, or against his indorser, if he took it from a third person and required him to indorse it. The judgment in question says, that the holder has no right against the banker, because he has not *accepted* it. Now, in the first place, we have shewn that the banker could *not* accept it, it is illegal to do so. But, in the second place, a banker is an exception to the ordinary case of drawees; a banker is bound by the custom of bankers to pay without acceptance, if he has funds in his hands. And it is difficult to see how this duty to pay without acceptance, does not extend to confer upon the holder of a cheque the right to enforce payment by the banker. The fact is, that by the custom of bankers, the possession of funds is equivalent to acceptance, at least, on presentment for payment. The law expressly forbids the issuer of a cheque to do anything which shall restrain the right of the *bearer* to enforce payment of it. It appears to us to resemble the case of bills of exchange in Scotland very much, when a man may draw a bill on his debtor, and assign it, and the holder of it may enforce payment without acceptance. Now, when a man has drawn such a bill and assigned it, would it be permitted

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in Scotland for a man to go behind the back of his assignee, and desire his debtor not to pay it? Has the holder of such a bill no right of enforcing payment against the debtor? We cannot help thinking that an analogous course of reasoning will shew that the holder of a cheque has a right to enforce payment of it against a banker. When the law says that a man shall not put a negotiable instrument into circulation without a stamp, unless it is payable to *bearer*, surely it would be merely a stultification of itself to allow him to go clandestinely and desire the banker not to pay it. It is a legal offence for a man to give a cheque upon a banker in payment of goods when he *knows* that he has no funds in the banker's hands to meet it,* surely it is not much less so to put a cheque into circulation, and immediately to *withdraw* from his banker's hands the funds to meet it with. We cannot help thinking that when a man has put a cheque into circulation, he has parted with all power over it, and that when the law says that cheques shall be payable to bearer, not only does the liability of bankers to pay their customer's cheques, without acceptance, to bearer, having funds to meet them, extend as regards their customers, but also to the holders of cheques drawn upon them.

77. It is usually said, that it is only the customer who has an action against a banker for non-payment of his cheques, on account of the damage done to his credit; but it is quite easy to imagine cases, where a banker might refuse payment of a cheque, without any damage to his customer's credit. In order to test general principles we must feign cases:—Suppose a banker were capriciously to say, upon a cheque being presented for payment, "I have plenty of my customer's funds in my

*Russell on Crimes, Vol. II., p. 295.

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hands, but I do not choose to pay this cheque," and he refused payment for no reason at all; would the holder of the cheque have no right of action against the banker in such case? It may be said, that in such a case the holder of the cheque would be entitled to demand payment from the drawer, and that the drawer would have an action against the banker. But let us carry the case a little further. Let us suppose a gentleman leaving London at the end of the season, pays his tradesmen by cheques, and immediately goes abroad, leaving funds in his banker's hands to meet them. Now, suppose that the tradesmen keep these cheques for some little time in their hands, as they very frequently do, without presenting them for payment; now if, when they presented them for payment, the banker said, "I have plenty of the drawer's funds in my hands, but I will not pay these cheques," and refused to do so. The tradesman has no means of getting payment from his debtor, because he is out of the country, and, perhaps, may never come back. Now in such a case as this, is it credible, or consistent with common sense, to say that the tradesman has no means of enforcing payment from the banker, because he has not accepted the cheque? Is it credible, that in such a case the tradesman has no right of action against the banker? Then it is very clear that here is a wrong done, and no remedy for it. What could be more fatal to the negotiability of cheques than to suppose that they are only payable according to the caprice of a banker? The manifest absurdity to which the broad doctrine, that the holder of a cheque has no right of action against a banker may lead, appears to us to be a cogent reason for believing that it is erroneous. It appears to us that it is the DUTY of a banker to pay cheques to the bearer, unless he has good grounds for believing them to be stolen, and that

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the holder of a cheque has a right of action against a banker who wrongfully refuses to pay it, and consequently that the holder of a crossed cheque has a right to enforce payment of it from the banker, the crossing being a mere nullity, by simply erasing the crossing, and presenting it as an ordinary cheque.

78. Or let us supose this case. Suppose the holder of a crossed cheque presents it for payment across the counter, and the banker refuses to pay it, on the ground that it is crossed, but having assets to meet it; then suppose that afterwards another person, the holder of a cheque drawn by the same customer but not crossed, presents it for payment, and is paid, which exhausts the customer's funds in the banker's hands. Then suppose the customer is bankrupt and has no effects, and the holder of the cheque loses his money, would not he have an action for damages against the banker for refusing to pay his cheque, and afterwards paying another party? We think it very clear that he would be entitled to recover damages against the banker for wrongfully refusing to pay the cheque. Hence, we think, that instead of saying, as some would, that a banker PAYS a crossed cheque at his peril, in case of the bearer not being entitled to it, the true expression is, that a banker REFUSES to pay a crossed cheque at his peril, in case the bearer suffers damage by the refusal.

79. The fact is, that the whole question may be brought into a very narrow compass; for it is just this —Does crossing a cheque in any way whatever impede its being payable to BEARER ON DEMAND? If so, it is an ILLEGALITY, attended with very heavy penalties; or does it not impede its being payable to bearer on demand? If so, it is a mere NULLITY, to which a banker should pay no attention. We are aware

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that several recent cases on the subject have been tried at *nisi prius*, but there is no authoritative report of them to which we can refer, and there is no use quoting imperfect reports of such cases on hearsay. It is, however, well-known that they are in accordance with the view here advocated, that crossing a cheque is a perfect nullity. They may, perhaps, come before the Court in *banc*, when there will be a more authentic report of them to deal with, and comment upon.

80. By the custom of bankers they have a general lien upon all securities deposited with them by their customers in the way of business, for debts due to them by their customers, unless such securities are specifically appropriated to particular advances.

81. The statute 7 and 8 Geo. IV., c. 29, s. 49, enacts, that if any money or security for the payment of money shall be entrusted to any banker, with any direction to apply such money, or any part thereof, or the proceeds, or any part of the proceeds of such security, for any purpose specified in such direction, and he shall in violation of good faith, and contrary to the purpose so specified, in any wise convert to his own use or benefit, such money, security, or proceeds, or any part thereof respectively, he shall be guilty of a misdemeanour, and be liable to be transported for not more than fourteen and not less than seven years, or suffer such other punishment by fine or imprisonment, or by both, as the court shall award.

And if any chattel or valuable security, or any power of attorney for the sale or transfer of any share or interest in any public stock or fund, whether of this kingdom or of Great Britain, or of Ireland, or of any foreign state, or in any fund of any body corporate, company, or society, shall be entrusted to any banker for safe custody,

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or for any special purpose without any authority to sell, negotiate, transfer, or pledge, and he shall in violation of good faith, and contrary to the object or purpose for which such chattels, security, or power of attorney, shall have been entrusted to him, sell, negotiate, transfer or pledge, or in any manner convert to his own use or benefit such chattel or security, or the proceeds of the same, or any part thereof, or the share or interest in the stock, or fund, to which such power of attorney shall relate, or any part thereof, he shall be guilty of a misdemeanour, and liable to the same penalty as in the preceding case.

82. We do not in this treatise think it necessary to give any account of banking bookkeeping, as that is the function of the clerk, and not of the banker. Bookkeeping is not "banking." Moreover, an excellent account of the details of banking bookkeeping will be found in Mr. Gilbart's "Treatise on Banking," which is in the hands of every one interested in the subject.

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CHAPTER XV.

ON BILLS OF EXCHANGE AND PROMISSORY NOTES.

1. We propose in this chapter to give only such parts of the law relating to bills of exchange and promissory notes, as it is indispensable that a banker should be familiar with in the ordinary business of banking. To give the whole law on the subject would fill a large volume, and several treatises on it exist, to which we may refer.

ON THE FORM OF BILLS AND NOTES.

2. A bill of exchange is a written order from one person to another person to pay a fixed sum of money to some person named in the order.

A promissory note is a written promise given by one person to pay a fixed sum of money to some certain person, or to his order, on demand, or at sight, or at some fixed time, or to the bearer.

No particular form of words is necessary for either bills or notes. They may be written in any language, or on any substance, and in pencil as well as in ink.

It is usual, but not necessary, to write the name of the place where the bill or note is made, as well as the date; if there be no date, it will be considered as dated at the time it was made.

It is usual to write the sum for which a bill, note, or

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cheque is made or drawn, at full length, in the body of the instrument, as well as in figures in one corner of it. This latter, however, is held to be merely a memorandum, and if the sum stated in the body of it differ from the figures in the corner, the former is the sum for which the instrument is good.

It is also usual to state the time when the bill note is payable in the body of it; if none be stated, it will be payable on demand.

Bills and notes must be payable at some certain time, or at some event which must certainly happen. A bill or note made payable on the happening of a contingency is invalid; or an engagement made payable on the maker's marriage is no note, because he may never marry; or an instrument made payable on the sailing of a ship is no note. But a note made payable at the maker's death is good, and by somewhat a stretch of the rule, a note made payable when a ship was paid off was held to be good.

The payee of a note must be a certain person. A note made payable to the secretary of a company would be bad, because the secretary may be changed; unless it can be construed so as to be made payable to bearer. A note made payable to the directors of a corporation, which had a right to sue, and be sued by its own name, would be bad.

Bills and notes must be general obligations to pay a fixed sum of money, and not any appropriations of specific funds.

If the form of the instrument be so ambiguous as to make it uncertain whether it is a bill or a note, the holder may treat it as either.

If the instrument is so irregular as to be neither a bill nor a note, it may still be evidence of an agreement.

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OF THE STAMP.

3. Inland bills and notes must be written on paper previously stamped. The Commissioners are forbidden to stamp them after they are made, as they may other agreements; and unstamped bills, notes, or drafts, are not admissible in evidence, or available at law, or in equity. But they may in criminal proceedings.

But the Commissioners may restamp any bill or note on which a stamp of a wrong denomination has been affixed, if it be of equal or superior value to the proper stamp, on payment of a penalty of 10s. if the bill or note be not due, and of £10 if it be due.

It is also enacted, that every instrument bearing a stamp of greater value than required by law shall be valid, if of the proper denomination.

The present stamp duties on inland bills and notes are as follows :—

INLAND BILL OF EXCHANGE, Draft, or Order for the payment to the bearer, or to order, at any time otherwise than on demand of any sum of money

		Duty. £	s.	d.
Not exceeding	£5	0	0	1
Exceeding £5 and not exceeding	10	0	0	2
„ 10 „ „	25	0	0	3
„ 25 „ „	50	0	0	6
„ 50 „ „	75	0	0	9
„ 75 „ „	100	0	1	0
„ 100 „ „	200	0	2	0
„ 200 „ „	300	0	3	0
„ 300 „ „	400	0	4	0

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				Duty. £	s.	d.
Exceeding	£400 and not exceeding		£500	0	5	0
,,	500	,, ,,	750	0	7	6
,,	750	,, ,,	1000	0	10	0
,,	1000	,, ,,	1,500	0	15	0
,,	1,500	,, ,,	2,000	1	0	0
,,	2,000	,, ,,	3,000	1	10	0
,,	3,000	,, ,,	4,000	2	0	0
,,	4,000 and upwards		.....	2	5	0

PROMISSORY NOTE for the payment in any other manner than to the bearer on demand of any sum of money

Not exceeding			£5	0	0	1
Exceeding	£5 and not exeeeding		10	0	0	2
,,	10	,, ,,	25	0	0	3
,,	25	,, ,,	50	0	0	6
,,	50	,, ,,	75	0	0	9
,,	75	,, ,,	100	0	1	0

PROMISSORY NOTE for the payment either to the bearer on demand, or in any other manner than to the bearer on demand of any sum of money

Exceeding	£100 and not exceeding		£200	0	2	0
,,	200	,, ,,	300	0	3	0
,,	300	,, ,,	400	0	4	0
,,	400	,, ,,	500	0	5	0
,,	500	,, ,,	750	0	7	6
,,	750	,, ,,	1000	0	10	0
,,	1,000	,, ,,	1500	0	15	0
,,	1,500	,, ,,	2000	1	0	0
,,	2,000	,, ,,	3000	1	10	0
,,	3,000	,, ,,	4000	2	0	0
,,	4,000 and upwards		.....	2	5	0

Before this Act Foreign Bills were exempted from

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any stamp duty, but the enormous frauds that were perpetrated upon the revenue by persons who fabricated bills in London, purporting to be drawn abroad, compelled the legislature to impose stamps on Foreign Bills.

The Act, Statute 1854, c. 83, provides, that certain duties therein named, should attach and be payable upon all such bills as shall be paid, indorsed, transferred, or otherwise negotiated within the United Kingdom, wheresover the same may be payable, and that they should be denoted by adhesive stamps, to be affixed on the bill as directed.

Every bill purporting to be drawn out of the United Kingdom shall be deemed a Foreign Bill for the purposes of the Act, even though it should actually have been drawn within the Kingdom.

The holder of any Foreign Bill not having a proper adhesive stamp on it, must, before he presents it for payment, or indorses, or transfers, or in any manner negotiates such bill, affix a proper adhesive stamp on it.

Whoever indorses, transfers, or negotiates such a bill, must, before he delivers it out of his hands, custody, or power, cancel the stamp so affixed, by writing thereon his name, or the name of his firm, and the date of the day and year on which he so writes the same, in order that the same may not be used again for any other purpose.

If any person presents for payment, or pays, or indorses, transfers, or negotiates any such bill whereon such adhesive stamp shall not have been duly affixed; or if any person who ought by the Act to cancel such stamp as above directed, neglects, or refuses to do so, he is liable to a penalty of £50.

No person who takes or receives from any other

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person any such bill as aforesaid, either in payment or security, or by purchase or otherwise, shall be entitled to recover thereon, or to make the same available for any purpose whatever, unless at the time when he shall so take or receive such bill, there is such a stamp on it as ordered, and cancelled as directed.

Any person who, within the United Kingdom, draws and issues any bill of exchange payable out of the United Kingdom, purporting to be drawn in a set, and shall not draw and issue on paper duly stamped, the whole number of bills of which the set purports to consist of; or if any person within the United Kingdom shall transfer or negotiate any such bill as aforesaid, purporting to be drawn in a set, and shall not at the same time transfer or deliver on paper duly stamped the whole number of bills of the set, he shall forfeit £100; and if any person receives in payment, or as security, or by purchase or otherwise, any such deficient set, he shall not be entitled to recover on any such bill, or make it available for any purpose whatever.

The Stamps are as follows:

FOREIGN BILL OF EXCHANGE drawn in, but payable out of the United Kingdom.

If drawn singly, or otherwise than in a set of three or more, the same duty as on an Inland Bill of the same amount and tenor.

If drawn in sets of three or more, for every bill of each set,

	Duty. £	s.	d.
Where the sum payable thereby shall not exceed £25	0	0	1
Where it exceeds £25 and does not exceed 50	0	0	2
„ 50 „ 75	0	0	3

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				Duty £	s.	d.
Where it exceeds	£75	and does not exceed	£100	0	0	4
„	100	„	200	0	0	8
„	200	„	300	0	1	0
„	300	„	400	0	1	4
„	400	„	500	0	1	8
„	500	„	750	0	2	6
„	750	„	1000	0	3	4
„	1000	„	1500	0	5	0
„	1500	„	2000	0	6	8
„	2000	„	3000	0	10	0
„	3000	„	4000	0	13	4
„	4000 and upwards			0	15	0

The Act accidentally, or designedly, takes no notice of promissory notes drawn abroad, and, consequently, they would appear to be still free from duty.

OF ACCEPTANCE.

4. The holder of an unaccepted bill should present it for acceptance as soon as possible. If the drawee refuse acceptance, the preceding parties become liable immediately.

If the holder be a mere agent, he will be liable for any loss that may occur through his negligence to present.

If the bill is payable at sight, or at any period after sight, presentment is necessary; as, if it be not made within a reasonable time, the holder will lose his remedy against preceding parties. What is a reasonable time depends upon the circumstances of each case.

Presentment for acceptance should be made during

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the usual hours of business; and, it must be made either to the drawer himself, or to his authorized agent.

The holder, however, may put the bill into circulation without presenting it.

When the bill is presented, the drawee has the right to keep it a reasonable time, to decide whether he will accept or not; and this is usually held to be twenty-four hours.

A drawee, in general, is not liable to pay without acceptance. But a banker is an exception to this rule. He is bound to pay all his customers' bills or cheques drawn upon him, without notice, and without acceptance, provided he has funds to meet them, as also all bills and notes that his customers make payable at his house.

The acceptance of inland bills of exchange must be in writing on the bills, or if there is more than one part of such bill, on one of the said parts. It does not follow from this that the acceptance must be the name of the party, written at full length. His initials would appear to be sufficient, or even a mark. The Act does not apply to foreign bills, consequently, the acceptance on foreign bills may be by a collateral writing, or by a verbal engagement.

One partner may bind his co-partner by acceptance; but if a bill be drawn upon several persons not in partnership, they must all accept, and if they do not, it may be treated as dishonoured. But it will be valid against those who do accept.

A bill may be accepted by a man's wife, if he afterwards acknowledge it. And the acceptance may be written on the blank paper, if stamped before the bill is drawn.

The drawee is not bound to accept precisely in the

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terms of the bill. He may make a *general* acceptance, or a *qualified* acceptance.

A *general* acceptance is an acceptance to pay according to the tenor and effect of the bill, and is usually done by writing the words "accepted," with the signature of the acceptor.

By a general acceptance, the acceptor binds himself to pay it anywhere, and at any time it may be presented to him for payment, on the day it matures, or any day afterwards. Nay, the holder of the bill is not bound to present it to him at all for payment, but may commence an action against him, without presentment, and such action is a good demand for payment. Such a course, however, would discharge all the other parties to the bill.

A *qualified* acceptance is either *conditional* or *partial*, and varying the tenor of the bill.

Thus, an acceptance to pay, "when in cash for the cargo of a ship," or any similar one, is a conditional acceptance, and is not an absolute one until the condition is fulfilled.

A partial and varying acceptance is when the drawee accepts only for part of the sum mentioned in the bill, or makes it payable at a different time.

It is very usual for men in business to make their bills payable at their banker's. It was disputed whether this was a general or a qualified acceptance. A case having been decided by the House of Lords, that it was a qualified acceptance, contrary to the usual practice and opinion of merchants; the Act, Statute 1820, c. 78, was passed, which enacted that, if any person shall accept a bill of exchange payable at the house of a banker, or other place, without further expression in his acceptance, such acceptance shall be deemed and taken to be, to all intents

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and purposes, a general acceptance of such bill; but if the acceptor shall, in his acceptance, express that he accepts the bill payable at the banker's house, or other place ONLY, *and not otherwise or elsewhere*, such acceptance shall be deemed and taken to be, to all intents and purposes, a qualified acceptance of such bill; and the acceptor shall not be liable to pay the said bill, except in default of payment, when such payment shall have been first duly demanded at such banker's house, or other place.

A drawee will, however, not be liable merely by writing his name on the bill; it is essential that there be an issue or delivery of the bill to some one interested in it, or what is equivalent to a delivery, a communication that he has so accepted it. Consequently, if the drawee change his mind after he has written his name on it, but before he has delivered it, he may cancel his acceptance.

When a drawee has once accepted a bill, and put it into circulation, his liability is irrevocable. He cannot dispute the drawer's signature, nor the payee's right to endorse, nor that he was an infant, nor that the drawer was a married woman, and that he accepted the bill drawn by her without consent of her husband.

When a bill is accepted by a married woman, a banker should always inquire whether she has authority to do so, or not; but, by the custom of London, (and Bristol, we believe) a married woman may be a sole merchant, and carry on a business wholly independent of her husband, and consequently, negotiate bills in that capacity.

A bill which is accepted, or a promissory note made by a number of persons, "jointly and severally," is the note of all of them, or of each of them separately; but it

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is not the note or bill of two or more of them, less than the whole number.

ALTERATION OF A BILL OR NOTE.

5. As the Stamp Laws require that the stamp be impressed upon the paper upon which a bill or note is to be written, before it is written; when it is once completed and issued, it cannot be altered in any way, even by consent of all the parties, so as to vary the original contract; because the first contract has already exhausted the stamp, and no new stamp can be impressed upon the new contract.

It may, however, be altered before it is issued or negotiated, or attempted to be issued or negotiated, by the consent of the parties to it.

An accommodation bill is not considered as issued until it is in the hands of some person who is entitled to treat it as a security available at law.

A material alteration in a bill or note, even though it be made by a stranger, will avoid it, because the person who has the custody of it is bound to preserve it in all its integrity; and as an alteration by himself would vitiate it, so will any alteration made through his negligence.

Thus, where a bill was drawn, payable to A. B., and while in his possession, the date was altered, it was held that the acceptor was discharged.

So, where the drawer, without the acceptor's consent, added the words, "Payable at Mr. B.'s, Chiswell Street," the acceptor was discharged. But it was held that such an alteration, being not a variation of the original contract, if made with the acceptor's consent, would

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not vitiate the bill. And such an alteration as this would not take away the remedy against the holder's indorser.

Where a bill was addressed to A. B. and Co., and the acceptance was by A. and B., and the address was afterwards altered so as to correspond with the acceptance, it was held to be an immaterial alteration, the acceptors being liable either way.

The following alterations are material: any change in the date, sum, or time of payment, the insertion of words making an instrument negotiable which was not so before. Even altering the words "value received," into an expression of the particular consideration which passed, though it is difficult to see how the last can be any variation of the original contract.

An alteration made before the bill or note is negotiated or issued, will not vitiate it.

Where a drawer of a bill payable to his own order sent it to the drawer for acceptance, who requested that the time for payment might be enlarged, which, having been consented to, and the alteration made, and the drawee then accepted it, it was held that such an alteration did not vitiate the stamp. So, where alteration was made in an accommodation bill by the parties to it, and before it had passed into the hands of a holder for value, it was held that the bill was not issued, and it was not void.

Also if the alteration is made to rectify a mistake, and to make it what it was originally intended to be, it will not avoid it. Thus, where a drawer intending to make the instrument negotiable, accidentally omitted the words "or order," and indorsed it over, their subsequent insertion in pursuance of the original intention was held not to vacate the bill.

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So where a bill has been accidentally misdated, a correction of the date will not vitiate it. In one case even where a palpable mistake was made in dating the bill, it was allowed to be proceeded upon as if correctly dated.

And whether the alteration was intended to vary the original contract, or was the mere correction of a mistake, is a question of fact for the jury.

An alteration by the drawer, payee of the bill, does not extinguish the original debt, though it avoids the instrument. But an alteration by the indorsee not only avoids the security as against all parties, but extinguishes the debt due from the indorser to the indorsee.

No man should take a bill which has been altered, without requiring full information as to the circumstances of the alteration, because in the event of his having to take proceedings at law against the parties to it, it will lie on him to prove that the alteration did not vitiate the instrument.

The maker of a promissory note is discharged from his liability by any alteration of the note, wherever the altered instrument if genuine, would operate differently from the original instrument, even though it should be to his advantage.

Two persons signed a joint and several promissory note. The plaintiffs, afterwards procured another person to sign it in addition to the first two. This was held to be a material alteration discharging the original makers.

OF SIGNING BY PROCURATION.

6. It is very common for persons to authorize others to draw, accept, indorse, and negotiate bills for them, and such signing is called signing *by procuration.*

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As the agent is the mere hand which performs the duty, persons may sign by procuration who have no capacity in their own right to contract, such as infants, married women, persons attainted, or, in fact, laboring under any disqualification.

No particular form is necessary to convey this authority, either verbal or written. But any one who takes a bill, accepted, or indorsed by procuration, is bound to make inquiry, whether or not the authority has been properly followed.

General authorities to transact business do not carry with them powers to negotiate bills; but if the principal afterward adopts the agent's acts, it will bind him if the agent gave notice he was acting as agent.

Special authorities will be construed strictly; but if an agent has been in the habit of drawing, accepting, or indorsing for his principal, and he has adopted his agent's acts, it will render him liable.

An agent's authority will be presumed to continue until notice is given of its termination. Such notice as regards strangers must be given in the *Gazette*, and to customers and correspondents by individual communication.

An agent who wishes to avoid personal liability, must either sign his principal's name only, or expressly state on the face of the instrument that he signs it as agent. If he omits this he will be personally liable, and he only, even though the payee knew that he was only acting as agent.

Evidence cannot be received to charge a principal who is not named on the face of a bill or note ; nor to discharge an agent who signs it with his own name.

Where an agent being duly authorized, expressly states on the face of the instrument that he merely

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signs it by procuration for a principal, he will not be bound.

But where a bill was drawn on A. B. as purser of a mining company, and he was also a partner, and he accepted it by procuration for the Company, and expressly stated at the time, that he would not be personally bound by it, and it appeared afterwards that he was *not authorized to accept bills on behalf of the Company*, he was held personally liable.

ON THE TRANSFER OF BILLS AND NOTES.

7. A bill or note may be made payable to an individual only, and in such a case it is not a negotiable instrument, and the payee cannot transfer it to any one else.

However, it is usual to make the note payable to some person, or to his order, or to bearer. In such a case it is a negotiable instrument. The owner of it may transfer it to whom he pleases, and the transferee may sue for payment of it in *his own name*.

When such a bill or note is payable to bearer, it passes by simple delivery like a Bank note, and no indorsement is necessary to convey a title to it, if the transferee chooses to forego the security of the transferer's liability.

When a bill or note is made payable to A. B. or order, it is necessary for A. B. to write his name on the back of it, as well as delivering it, in order to convey a title to the receiver. The *signature and delivery* constitute the indorsement.

The indorsement may either be *in blank* or *special*.

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An indorsement in blank is, when the indorser simply writes his name on the back of the bill, and delivers it to the receiver.

Such an indorsement makes the bill payable to *bearer;* it becomes, in fact, like a Bank note, transferable by mere delivery.

Such is the case almost universally with bills in commerce. After the first indorsement, there is not one case, probably, in twenty thousand, where bills are not indorsed in blank. Consequently, they may legally pass through a hundred hands by mere delivery, exactly like a Bank note.

However, it is not *usual* for persons to receive bills of exchange in payment without requiring the transferer to indorse them; and the reason and object of this indorsement has been greatly misconceived by many persons who have written about the currency.

They have imagined that the indorsement was necessary to *convey a title*, but this is a profound delusion; the receiver requires the transferer to indorse the bill, for the purpose of obtaining an additional security, in case the bill is not paid by the acceptor.

If a person takes a negotiable instrument payable to bearer *without indorsement*, it is payment; no matter whether it be a Bank note, a bill of exchange, or any promissory note, and he has no remedy against the transferer if the instrument is not paid.

The distinction, then, very commonly made between Bank notes and bills of exchange, that one is currency, and the other is not, because one passes by delivery, and the other does not, is perfectly futile.

A *special* endorsement, or, *in full*, as it is sometimes called, specifies the person to whom the bill or note is to be paid, and may make it payable to him, or to his order,

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and this indorsee may similarly indorse it again, either in blank, or in full, as he pleases.

The omission of the words "or order" in the special indorsement, does not prevent the indorsee indorsing it again, for he takes it with all its incidents, one of which was negotiability.

When a bill of exchange is once indorsed in blank, and becomes payable to bearer, it cannot afterwards be specially indorsed.

An indorser admits the signature and capacity of every prior party.

The indorsee has a right of action against all the parties whose names are on the bill, in case of non-acceptance, or non-payment.

If, however, the payee of a bill payable to order, neglect to indorse it, the indorsee cannot sue any one but his immediate indorser in his own name.

If a person deliver a bill without indorsement, where it was intended that he should indorse it, an action lies against him for refusing to indorse, and he and his representatives may be compelled in equity to indorse.

The transferer of a bill or note made or become payable to bearer, *without indorsement*, is not liable on the instrument, to the transferee.

But though a transferer, by delivery, does not warrant the solvency of the parties to it, he does warrant that the instrument is a *genuine* one, that it is, in fact, what it purports to be, and is not forged or fictitious. Thus, where a man transferred a bill of exchange by simple delivery, which purported to be drawn at Sierra Leone, but which was, in fact, drawn in London, and, therefore, void for want of a stamp, and it was not paid by the acceptor, he was compelled to refund payment to the vendee.

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But if the transferer *knew* that the parties to the bill or note had all failed, and that it would not be paid, that would be fraud, and he would be liable to refund the money.

If a bill is only payable to order, and has not become payable to bearer, by an indorsement in blank, an indorsee can have no title to it, unless the indorser had a right to indorse.

But if a bill or note is made, or has become payable to bearer, the title of the holder of it, who took it *bonâ fide*, and for value, is good against all the world, and he can enforce payment of it, from all the parties to it, even though he may have acted with negligence. Unless the negligence is so gross as to induce the jury to find it to be fraud.

If, however, the holder is merely an agent for another party, then his title can be no better than his principal's. Thus, if a man paid a note which he had stolen, into his account at his banker's, the banker would have no title to retain it against the lawful owner, even if it was in payment of a former debt.

Even if a bill or note is improperly pledged, the pawnee may retain it, against the real owner.

Acceptances and indorsements may be made on blank paper properly stamped, and the bill afterwards drawn upon such paper will bind the acceptor or indorser to the full amount of the stamp, in the hands of a holder for value.

If the drawer refuse to accept the bill, and the holder of it indorses it, the indorsee, with notice of such fact, is held to take the bill upon the credit of his indorser only, and the antecedent parties are discharged. But, if the indorsee had no notice of the dishonour, his rights are preserved, and such dishonour is only available against the holder who committed the *laches*.

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But, in the case of an over-due bill, an indorsee takes it with its equities, as it is termed. That is, he has no better title to it than his indorser, and if his immediate assignor could not have maintained an action upon it, he cannot, because the fact of its being overdue, is enough to excite suspicion.

But he will not be affected by the infirmity of the title of an original, or an antecedent party, if his immediate assignor could have maintained an action on it.

A note, payable on demand, is not considered as overdue, unless evidence is given of payment having been demanded and refused, as such notes are frequently given as continuing securities.

If a banker is banker both to the drawer and the payee of a cheque, and the payee pay in a cheque to the credit to his own account, and the banker receive it without objection, he is bound to appropriate any funds he may have of the drawer to the payment of the cheque, even though the drawer is indebted to him in a larger amount.

After a bill or note has been paid by the acceptor or maker, at maturity, or on their behalf, it is extinguished, and cannot be transferred, except promissory notes payable to bearer on demand reissued by the original maker, having taken out a licence for that purpose. But a bill or note which is paid only by an *indorser* is not extinguished, and may be reissued even after it is due, *ad infinitum*, until it is finally extinguished.

But if a bill or note is paid *before* it is due, it is not an extinguishment of it, and it is a valid security in the hands of an indorsee for value.

If the bill is partially paid at maturity by the drawer, or any party, the holder can only sue the acceptor for the balance.

A bill or note cannot be indorsed for a part of the

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sum remaining due upon it, if the limitation appear on the face of the indorsement. If it is indorsed or delivered for part of the sum due on the face of it, the transferee may sue the acceptor for the whole, and holds the balance as a trustee for the transferer.

But if it has been partly paid by the acceptor or drawer, it may be specially indorsed for the sum remaining due.

All bills and notes, which pass by delivery, may be the subject of a *donatio mortis causâ*, and it is probable that the same doctrine would now be maintained with respect to all bills and notes, because the ground upon which Courts of Equity now support donations *mortis causâ* is not that complete property must pass by the delivery, but that it must be so far complete as to enable a Court of Equity to complete it.*

OF PAYMENT.

8. No demand of payment is necessary against the acceptor; he remains always liable to the holder. But it is necessary to charge the drawer or other parties, to the bill. Such demand, however, need not be a personal demand, it is sufficient if made at his house or usual place of business, of his wife, or other agent. And when the acceptor has put a memorandum on the bill, making it payable at his banker's, or other place, demand there is sufficient to charge the drawer.

The bankruptcy or insolvency of the acceptor is not sufficient to excuse neglect of presentment for payment; as he may have other means of paying, as by the assistance of friends.

But presentment for payment is not necessary to charge a party who guarantees the payment of a bill or note.

* Williams' Law of Executors and Administrators, p. 658.

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Even if the acceptor has absconded, the holder should make some effort to find him out, and, at all events, present the bill at his house.

If he be dead, presentment should be made to his personal representatives, and if he have none, then at his house.

The custom of most countries has established that the acceptor of a bill has some days allowed him, after the bill has become due, to pay it. These are called the days of grace. In the United Kingdom the days of grace are three; consequently, a bill or note that is due on the 1st of a month is payable on the 4th.

Bills and notes may be drawn payable a certain number of days, or weeks, months, or years after date or after sight, or on a certain day, or at a certain event, or at usance, or by instalments, or at sight, or on demand.

When a bill or note is payable at, or after sight, this means acceptance, as evidence of sight. Usance means the usual time formerly appointed between different countries for the payment of bills; and differs with every country.

On all instalments the days of grace are allowed, except on bills of exchange payable on demand, which includes cheques.

It is said to be doubtful whether days of grace are allowed on bills drawn payable at sight; the better opinion seems to be that they are.*

Bills and notes payable on demand should be presented within a reasonable time, though what is a reasonable time depends upon the peculiar circumstances of each case. With respect to bills payable on demand, in-

*Byles on Bills, p. 152. Edition, 1847.

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cluding cheques, it has been decided that the holder has the whole of the day after he has received them to present them.

A bill or note upon which no time of payment is specified, is payable on demand.

If a bill or note is payable at a banker's, it must be presented within banking hours; but in other cases the rule is, that it must be presented at a reasonable hour; a presentment at eight o'clock in the evening would not be unreasonable, but one at near twelve o'clock would.

We have already seen that when a bill is accepted payable at a banker's or other place, that is, by law to all intents and purposes, a *general* acceptance, unless it is made payable there only, and not elsewhere. It is a most important distinction between bills of exchange and promissory notes, that the Act only applies to bills of exchange, and consequently if a promissory note is made payable at a particular place, presentment for payment *must be made at that place*, and in any action on the note, presentment there, must be alleged and proved.

Some think that if a particular place is named by the acceptor, at which the bill is payable, that presentment there is necessary to charge the *drawer*. We venture to think, however, that this is hardly consistent with the words of the Act, for it expressly says that such an acceptance is a general one, *to all intents and purposes*, and surely one of these intents and purposes is to charge the drawer in case of nonpayment.

If the bill or note be not duly presented for payment, all the antecedent parties are discharged from liability, either on the note, or on the consideration.

A declaration beforehand by the acceptor, that he will not pay, even made in the presence of the drawer,

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will not excuse want of presentment and notice of dishonor to the drawer.

If any antecedent party *knowing that laches has been committed*, nevertheless promises to pay, or makes, or promises to make, a partial payment on account, it will be a good consideration to charge him with the whole, for, like the statute of limitations, such irregularity does not *destroy the debt*, but only *bars the remedy*, and, consequently, a voluntary reassumption of the liability is good, without a fresh consideration.

If a bill or note is made payable to *bearer*, or has become so by indorsement in blank, payment by the acceptor to the bearer will discharge the acceptor, even if he pay it to the thief or finder. And a *bonâ fide* holder for value may compel payment of such an instrument. But if the payer knew the infirmity of the bearer's title, such a payment will be a fraud, and will not discharge him.

We have seen that a person honestly discounting, or buying a bill or note, is entitled to keep it, even if there be negligence, and a similar analogy would seem to hold good regarding his paying it.

But if such a payment be made out of the usual course of business, and under circumstances evidently suspicious, the payer will not be discharged.

Thus, if a person finds a cheque torn in pieces by the drawer before circulation, and pastes the pieces together, and presents it for payment, and the banker pays it, he is held to be guilty of such negligence that he cannot charge his customer with the amount.

If the bill or note be *not* payable to bearer, but only transferable by indorsement, the payer will not be discharged by paying a wrong party.

A bill is not finally extinguished until paid by, or on

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behalf of the *acceptor*, or a note until paid by or on behalf of the maker.

If the *acceptor* retires the bill at maturity, it is taken out of circulation altogether; but if an *indorser* retires it, he merely withdraws it as far as he is concerned, and may hold it with the same remedies as if he had paid the amount in due course to his indorsee.

The acceptor of a bill, or the maker of a note, should pay it on demand at any time, within business hours, on the day it is payable. If he refuses to do so, the holder may immediately treat it as dishonored; but he has the whole of the day to make the payment, and even if he refuses to do so, and pay it afterwards, such payment will be good.

If the holder of a bill or note constitutes any one of the parties on it liable to him, his executor, and dies before it becomes due, it is a release of the debt, for no man can sue himself.

As the essential requisite of a bill or note is that it should be payable in *cash*, so every holder is entitled to have it paid in nothing but *money*. When the bill is paid, the payer is entitled to have it delivered up to him.

In the general prevalence of keeping banking accounts at present, payment of a bill or note is often offered in cheques, but in such a case the bill should never be delivered up, until the cheque is paid. For if it is given up and the cheque is unpaid, the holder has no remedy against the drawer and indorsers, for they are entitled to receive the bill on paying it.

And an agent who delivered up a bill on receiving a cheque for it, would be liable to his principal, in the event of the cheque being dishonored, and the remedy lost against the other parties. Although in one case it was held that an agent was justified by the usage of trade in

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doing so. But we cannot think that would be held to be law at the present day.

Where a banker holds a balance of his customer, and the latter becomes indebted to him, on several insulated debts, as for instance, on several unpaid bills of exchange, he may appropriate the balance towards the payment of such bills as he pleases.

If a drawee discover that a bill or cheque is forged, it does not appear that he can recover back the money.

UPON NOTICE OF DISHONOR.

9. The holder of a bill which is refused acceptance, or payment, must give notice of the dishonor to the antecedent parties, or he loses his remedy against them.

Two things are legally necessary to constitute a due notice of dishonor; first, a notification of the fact of dishonor; and secondly, a demand of payment.

No particular form of words is necessary, and it may either be written, or verbal; but if either of the two points mentioned above are omitted, it is no due notice, and the parties are discharged. The notice should also specify the bill, so that it cannot be mistaken for any other.

A stringent decision in the House of Lords, *Solarte*, v. *Palmer*, has rendered it necessary to pay much attention to the form of notice. Many notices have been held insufficient. Thus the following was held insufficient:—

"MR. MAINE: Sir,—This is to give you notice, that a bill drawn by you, and accepted by Josia Bateman for £47 16s. 9d., due July 19, 1835, is unpaid, and lies due at Mr. J. Furze's, 65, Fleet-street."

The following was held sufficient:—

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"SIR,—The bill for £———, drawn by you, is this day returned with charges, to which your immediate attention is requested"

The following form of giving notice might be adopted by an indorsee to his indorser, and altered if necessary:—

London, 185

"SIR,—The bill of exchange for £———, dated ———, drawn by A. B. of ———, upon C. D., of ———, payable——— ——— months after date, to A. B., or order, and indorsed by you, has been duly presented for payment, and has been returned dishonoured, and is now unpaid. I request you to pay me the amount of it forthwith."

If the instrument is so irregularly drawn as to make it uncertain whether it is a bill or note, it may be described as either in the notice. But it must be described so that the defendant shall be able to identify it, and not be able to confound it with some other bill. Thus a notice to an indorser, who is not also the drawer, that a bill drawn by him lies dishonoured is not good.

The best way of sending notice of dishonour is by the Post Office, which being a public office, any miscarriage by it will not prejudice the sender.

The letter must be addressed particularly to the drawer if he reside in a large town; unless, indeed, he has himself dated it only generally.

It is essential to be able to prove that the letter of notice has been posted, consequently, the messenger who takes it should always be required to examine the letters sent, and certify with his initials that he has duly posted them.

But though sending a letter by the post is the more usual way of giving notice, sending a clerk or special messenger, if the parties live in the same town, is equally good; and a message sent to a counting-house within the

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usual hours of business, is sufficient, even though there is no one within, as it is the duty of the merchant or trader to have some one in attendance.

Notice of dishonour must be sent within a reasonable time; and a reasonable time is held to be by the post of the next day after the dishonor, when the parties live in different towns. When they live in the same town, it must be given *in time to be received* the day after the dishonor. Therefore when the parties live in London, and the notice is sent through the local post, it must be posted in time to be *delivered* the next day.

As the acceptor has the whole of the third day of grace to pay the bill in, even though the demand should be made in the morning, it is not usual to send out the notice the day of the dishonor.

If the parties live in different towns, the notice must be posted in time to go by the post of the succeeding day, and if there be two mails between the towns, so that being posted too late by the evening mail of the day it ought to go, it still goes by the morning mail of the next, and is received in the same day as it ought to have been, that is not sufficient.

The holder of a bill in London, which was dishonored, sent notice of dishonor to Liverpool, where the drawer and indorser resided. It was the messenger's duty to post the letters in the General Post Office, or its branch in Lombard Street; and if the letter had been posted in either of them, it would have gone that night, and been delivered in Liverpool the next morning. It was perfectly well known in Liverpool that the acceptors of the bill had failed, and that it would not be paid; and the drawer of it brought the amount to the indorser on the morning when notice of dishonor was expected. The indorser, however, did not receive notice by that post,

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and refused to receive the funds from the drawer. The fact turned out to be, that the messenger, instead of posting the letter in the chief office, had posted it in the Cornhill branch, and it was too late to go by that night's post. It went, however, next morning, and reached Liverpool the same afternoon, but this was held not sufficient, and the holder lost his remedy against the other parties.

When there are several parties on a bill, each has a similar time, of one day, to give notice to the parties antecedent to him.

And where a banker or other agent holds a bill, for the purpose of collection, he has a day to give notice to his customer, and his customer another day to give notice to the preceding parties.

Where a bill passes through several branch banks of the same establishment, each branch is to be considered as a separate holder, entitled to receive and transmit notice.

When the last day of grace falls on Sunday, Christmas Day, or Good Friday, the bill is payable on the preceding day; but, if a man receive notice of dishonor on such a day, it is not to be reckoned in computing time in which notice is to be given, as he is not bound to open letters on such a day.

Notice of dishonor must be given by some party to the bill, or his agent, and not by a stranger. And even a party to it, who is not in a condition to maintain an action upon it, cannot give notice. Thus, a notice by a first indorsee, who had not himself received notice from the second indorsee, and was therefore exonerated from liability, was of no avail, as between the second indorsee and the drawer. Nor can any party to the bill, who has been discharged by laches, give notice.

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But a notice by the holder, or by a person who may be sued, and may himself sue, will be sufficient on behalf of all antecedent or subsequent parties. Thus, a notice by the holder to the drawer will operate as a notice from each indorser to the drawer; or if any indorser has duly received notice, notice given by him to the drawer will be equally in favor of all parties.

An agent for any of the parties entitled to give notice, such as his banker or attorney may also give notice.

In all cases, it is better for the holder to give notice to all parties on the bill, where he can do so. In many cases, where there are several indorsements on the bill, it is common to send notice only to the last indorser, enclosing him notices to be transmitted to the previous parties. But if the last indorser neglects to do so, they are discharged.

When there are several indorsees, the laches of one will discharge all the prior parties.

If the drawer of a bill become bankrupt, he is still entitled to notice. And if he have absconded, notice should be given to the person in charge of the estate. If he be dead, notice should be given to his personal representatives.

If parties are jointly liable on a bill, notice to one is sufficient.

We have already seen that a person who transfers by mere delivery a negotiable instrument payable to bearer for value, is not liable on it in case of nonpayment, nor upon the consideration, consequently, he does not require notice of dishonor. But if it be given in payment of a pre-existing debt, he will in general continue liable on the consideration, if due notice of the dishonor be given him.

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It is necessary for the convenience of merchants, that the rule regarding notice of dishonor should be extremely strict; but there are some cases where notice may be dispensed with or waived, as where the drawer promised the holder, some days before the bill became due, to call and see if the bill had been paid by the acceptor, he was held to have dispensed with notice. But the cases on the subject are conflicting, and it is much better in all cases to give notice.

Delay of notice is excusable where the indorser is himself to blame. Thus, it is a very common practice for persons to indorse bills without giving their place of residence. In such cases, the holder may have a dishonored bill with several indorsements upon it, and he may not be able to find out their addresses immediately. If he uses reasonable diligence to discover the residence of the indorser, and gives notice of dishonor as soon as he discovers it, that is due notice of dishonor within the usage and customs of merchants. After the residence of the party is discovered, the holder has the same time to give notice as he would have had at first.

The death or dangerous illness of the holder, or his agent, may excuse want of notice.

The death, bankruptcy, or insolvency of the drawer, however notorious, is no excuse of neglect of notice.

Notice of dishonor need not be given to the indorser of a promissory note not negotiable.

In the case of an accommodation bill accepted by the drawee for the accommodation of the drawer, as it is the legal duty of the latter to provide the funds to meet it, he is not entitled to notice of dishonor.

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OF ACCEPTANCE AND PAYMENT SUPRA PROTEST, OR FOR HONOR.

10. Protest for non-acceptance, or non-payment, is in complete disuse for inland bills; but it is necessary for foreign bills. But sometimes, where acceptance or payment is refused, another party may accept, or pay it for the honor of the acceptor, or of some other party on the bill. In such cases a protest is necessary, as it can only be done after protest for dishonor. Such an acceptance or payment is said to be *supra protest*, or for honor.

The holder of a bill which has been refused acceptance by the drawer, but who is offered an acceptance for the honor of some other party on it, must have it first protested, and then it may be accepted for honor. He must present it for payment at maturity in the usual way, for the drawee may change his intention and pay it. If he does not, it must be again protested for nonpayment, and then presented for payment to the acceptor *supra protest.*

The acceptor *supra protest* has his remedy against the party for whose honor he accepts, and all parties antecedent to him, for any damages he may suffer by paying the bill.

Upon protest for nonpayment of a bill, any person may pay it for the honor of any other parties, and has a right of action against the party for whom the payment is made, and all others whom that one could have sued, but others are discharged.

But a simple course with respect to inland bills, is simply to pay the bill generally, and then the payer

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becomes an indorsee, and retains his rights against all the indorsers.

And this is the proper course to follow with regard to promissory notes, because the law merchant does not recognize payment *supra protest* upon them, but only on bills of exchange.

OF LOST AND DESTROYED BILLS AND NOTES.

11. The finder, or the thief of a bill or note, acquires no property in it, so as to enable him to sue upon it, or retain it from the rightful owner; but if it be transferable by delivery, and he passes it away for value, his transferee, if he took it *bonâ fide*, is entitled to retain ti, and compel payment from all parties to it.

The loser should immediately give notice to the parties on the bill, for they will make inquiry of the party presenting it for payment. He should also advertise its loss, and circulate notice of it among all bankers and bill-brokers, in case it may be offered them for discount.

The question has been recently tried twice—whether, if notices have been duly served upon foreign money changers that Bank of England notes have been stolen, and they afterwards, in the ordinary course of their business, cash them *bonâ fide*, they can recover their value from the Bank of England. In each case, it was proved that notice had been duly served. The juries, however, gave exactly opposite verdicts in the two cases—one for, and the other against, the plaintiff. Such is the glorious uncertainty of juries! The Court in Banc decided that the former view is correct, and that the amount may be recovered. *Raphael v. Bank of England.* 25. *L.J.C.P.* 33.

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Though the holder may have lost or destroyed a bill, he must still demand payment from the drawee at maturity; and give notice of dishonor, for the bill may still be paid with or without an indemnity.

If a bill or note is proved to have been *destroyed*, the holder may recover at law, by giving secondary evidence of its contents.

But if a bill, or note, or cheque, made or become payable to bearer, be *lost*, the owner cannot bring any action against any of the parties to it, either on the instrument itself, or on the consideration; for, it may have got into the hands of a *bonâ fide* holder for value, who is entitled to enforce payment of it from the parties liable.

But if the bill or note be *not negotiable*, or *only transferable by indorsement*, then, as the acceptor cannot be prejudiced by payment to the real owner, an action will lie.

However, in case of a bill or note being lost, the Statute 1698, c. 14, s. 3, enacts, that in case any inland bill of exchange, payable at any certain number of days, weeks, or months, after date, be lost within the time limited for payment thereof, the drawer of the bill shall be obliged to give another bill of the same tenor and effect as the lost bill, upon receiving a security from the person he gives it to, to indemnify him against all consequences of the bill being found again.

The remedy in this case must be sought for in a court of equity; a court of law having no power to compell a man to do anything. And the courts of equity have given a most sweeping extension to the words of the Statute; for they stretch its words to include all bills, and all parties to a bill; not only bills, but notes, after they are due, as well as before; and not only new bills or

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notes may be required, but payment. In all cases, however, with a satisfactory indemnity.

If a bill or note be lost in transmission by the post, or by any mode which the *creditor* directs, the loss will fall upon him.

OF THE ORDER OF LIABILITY OF THE PARTIES ON A BILL OR NOTE.

12. The parties on a bill are *never*, and the parties on a note are very frequently not, liable in an equal degree.

On a bill of exchange, the acceptor is the principal debtor, liable always, and in any case, to the holder; the drawers and indorsers are only sureties, liable to pay only on certain conditions; and a discharge to the principal is, in all cases, a discharge to the sureties.

And each party in succession is a principal debtor to the holder, and the subsequent parties are his sureties; consequently, a discharge to any party is a discharge to all subsequent parties; but a discharge to a surety is no discharge to a principal.

Thus, the acceptor is the principal debtor to the holder, and the drawer and indorser are his sureties. Between the holder and the drawer, the drawer is the principal debtor, and the indorsers are his sureties; so, between the holder and the first indorser, the latter is the principal debtor, and the other indorsers are his sureties; and so on in succession.

Where the payee is a different person from the drawer, he stands in the position of first indorsee to a bill payable to drawer's order.

The maker and indorsers of a note stand in the same order as the acceptor and endorsers of a bill.

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In a joint and several note, it frequently happens that one party is really the principal, and the other the surety. Evidence of this will be received in equity, to prove that time given to the principal will discharge the surety; but not at law.

An agreement to give the acceptor time to pay, without consent of all the sureties, will discharge them.

Such an agreement must not be an agreement in the ordinary colloquial sense of the word, but a *legal* agreement, founded upon a good consideration, and binding in law.

Hence, a mere forbearance to sue, or a *promise* not to sue or press him, is no discharge to the sureties, because such a promise is a mere *nudum pactum*, revocable at will.

But if the holder *contract* to destroy or suspend his remedy against the acceptor, all the sureties are discharged, unless the agreement contain a stipulation that the holder shall, on default, have judgment at as early a period, as if hostile proceedings had been commenced.

Or, even where the promise is made to a third party, it must be such as will satisfy the Statute of Frauds. Thus, where the executrix of an acceptor verbally promised the creditor to be answerable for the debt herself, if he would forbear to sue, and he did not sue, it was held that the drawer was not discharged, because the promise should have been in writing.

Taking a new bill from the acceptor, payable at a future day, without consent of the drawers, discharges the sureties; but it will not do so, if merely taken as collateral security; nor will taking other and further security

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release the sureties, if expressed to be for that purpose, and not in lieu of the first liability.

Part payment by the principal, or by the surety, is no discharge of the latter; nor will taking a warrant of attorney from the acceptor, payable by instalments, provided the payment of the last instalment be not delayed beyond the time when execution might have been had in the regular course of the action.

If the holder voluntarily receives a composition from the acceptor, without the permission of the sureties, they will be discharged: but if the acceptor is bankrupt or insolvent, and discharged under the Insolvent Act, he may recover the balance from the sureties.

Although the surety is discharged by any indulgence to the acceptor, yet, if he afterwards expressly assent, with a full knowledge of the facts, to what has been done, either by word or acts, it is a waiver of his discharge, and his liability will continue, even though he should have mistaken the law.

When a bill is accepted for the accommodation of the drawer, he is not entitled to notice of dishonor.

FORGERY OF BILLS AND NOTES.

13. Forgery is defined to be the making, or altering any writing with intent to defraud; and the forgery of bills or notes, or of any part of them, and uttering them, knowing them to be forged, are felonies.

Forgery is of several descriptions. It may be

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writing the name of an existing person; or it may be the misapplication of a genuine signature.

Thus, where a man, having obtained the genuine signature of Thomas Gibson, (before the Stamp Act,) wrote above it, a promissory note for £6,400, he was convicted of forging the note; and where the same prisoner having got the genuine signature of another person, wrote on the other side of the paper a promissory note payable to that person, making the signature appear to be an indorsement, he was convicted of forging the indorsement.

It is a very common practice for persons to draw bills in the names of fictitious persons, and discount them with their bankers. This offence is forgery.

It is forgery for a man to write his own name with the intention that it should pass as the signature of some one else.

So, every fraudulent alteration, whether by subtraction, addition, or substitution, is forgery.

Uttering an instrument is parting with it, or tendering it, or offering it for value.

When a bill or note has come into the possession of the holder, through a forgery, he cannot recover upon it, or even retain it. And if an acceptor or maker pays the holder who derives his title through a forgery, that will not discharge him.

The vendee of a forged bill is entitled to demand back the money from the vendor, unless there is negligence on his part. But the acceptor of a bill is bound to know the drawer's hand-writing; and so, bankers are bound to know their customers' signatures; and it is a doubtful point whether they can recover the money paid upon a forged signature of their customers upon a bill.

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These seem to be the chief points of the law of bills and notes, which occur in daily practice, and are most necessary to be known. Other proceedings upon such instruments will be in charge of the banker's solicitor, and for which we must refer to the larger treatises on the subject.

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CHAPTER XVI.

UPON JOINT STOCK BANKING IN ENGLAND.

THE ACT OF 1826 PERMITTING THE ESTABLISHMENT OF JOINT STOCK BANKS SIXTY-FIVE MILES FROM LONDON—JOINT STOCK BANKS OF DEPOSIT DECIDED TO BE NO INFRINGEMENT OF THE BANK OF ENGLAND CHARTER—THE JOINT STOCK BANKING ACT OF 1844.

1. The discovery in 1822 that the words creating the monopoly of the Bank of England, did not prohibit banks of deposit with more than six partners carrying on business, produced no fruit; and an attempt to come to an amicable arrangement with the Bank of England failed. After the terrible catastrophe of 1825, however, the Bank was finally convinced of the untenable nature of its monopoly, and it agreed to permit joint stock banks to be formed beyond 65 miles from the metropolis. By arrangement with the Bank, the Statute 1826. c. 46, was passed for this purpose. Its chief provisions are—

1. That Banks of an unlimited number of partners may be formed, and carry on all descriptions of banking business, by issuing notes and bills payable on demand, or otherwise, provided that such corporations or partnerships should not have any house of business, or establishment as bankers, in London, or at any place within 65 miles of London ; and that each member of such corpo-

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ration or partnership, should be liable for all its debts of every description, contracted while he was a partner, or which fell due after he became a partner.

2. No such banking company was to issue, or re-issue, either directly, or indirectly, within the prescribed distance, any bill or note payable to bearer on demand, or any bank post bill, nor draw upon its London agents any Bill of Exchange payable on demand, or for any less sum than £50, but they might draw any bill for any sum of £50 or upwards, payable in London or elsewhere, at any period after date, or after sight.

3. Such banking companies were expressly forbidden by themselves, or by their agents, to borrow, owe, or take up in London, or at any place within 65 miles of London, any sum of money on any of their bills or notes payable on demand, or at any less time than six months from the borrowing thereof; but they might discount in London, or elsewhere, any bill, or bills of exchange, not drawn by or upon themselves, or by or upon any person on their behalf.

4. Before such a company began business they were to make a return of the names and addresses of all their partners, and places for carrying on business, and the names of two or more of their partners, being resident in England, who were to be appointed public officers, and in whose names the company were to sue and be sued, which return was to be verified by oath. And they were required to make returns of all changes in their body.

5. That all proceedings at law and in equity, civil and criminal, should be taken by and against the public officers of the company. All decrees and judgments obtained against such public officers, should be valid against all and every member of the company; and execution upon a judgment against the public officer might be issued against any member of the company. But that every such public officer, or person against whom such execution issued should be fully indemnified by the other members of the company; but that no execution should issue against any person more than three years after he had ceased to be a partner.

6. The Bank of England was authorized to establish branches at any place in England.

7. Such Banking Companies might issue unstamped notes

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upon giving certain security to the Crown, to make true returns of the amount of their issues, and to pay the amount of stamp duty on them ; and they were not obliged to take out more than four licenses for issuing notes in different places. For any breach of these provisions in neglecting to send returns, the penalty was £500 per week, and various penalties were enacted for false returns. And every breach of the provisions relating to their banking business, subjected the company to a penalty of £50.

8. The rights and privileges of the Bank of England were to remain intact, and unaltered, except so far as varied by that Act.

2. Subject to these restrictions upon their business, this Act made no provisions regarding the constitution or capital of these companies. Each one was allowed to devise a constitution for itself, to name its own capital, and to make any public annoncement regarding it that it pleased. The formation of joint stock banks under this Act proceeded very slowly at first, not more than four or five being formed within as many years. The first was at Lancaster, the next at Huddersfield, the next at Bradford, and a fourth at Norwich, before any was formed in one of the great manufacturing towns. It was not till the prosperous years of 1833-4-5-6, that any very remarkable increase took place in their number. In these years, however, they multiplied rapidly, more especially in 1836, when upwards of forty were established in the spring. We are not going to enter into any account ot the rogueries, the frauds, the hideous mismanagement of the different banking companies which are detailed in the Parliamentary Reports.

3. On the renewal of the Bank Charter in 1833, it was determined to take off the vexatious restriction of preventing Banking Companies making their bills and notes for less than £50, payable on demand, by their

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agents in London. And they were required to keep weekly accounts, to be verified on oath, of the amount of their notes in circulation, and make a return to the commissioners of stamps, of the average amount in circulation every quarter. Statute, 1833, c. 83.

4. It was at this time, as we have already noticed, that the discovery that the monopoly of the Bank of England did not prevent joint stock banks of deposit being formed, attracted attention, and the opinion of the law officers of the Crown having confirmed this view of the case, a declaratory clause was inserted in the Act renewing the Bank Charter in 1833, to settle the matter, expressly permitting them, provided that such banking company did not borrow, owe, or take up in England any sum or sums of money on their bills or notes payable on demand, or at any less time than six months from the borrowing thereof.

5. The flank of the monopoly of the Bank of England being thus turned in this extraordinary and unexpected manner, as we may say, excited much consternation and alarm in that body. This declaratory clause was not long in being acted upon, and soon after the Act was passed, measures were taken to institute a joint stock bank in London. This was the London and Westminster Bank, which has since been managed with such distinguished success.

6. The enormous difficulties which must have attended the successful organization of this great establishment may be conceived, when we remember that it was not formed under the Joint Stock Banking Act at all, which had no force within 65 miles of London, but that it was nothing but an ordinary partnership at common law. One of the least inconveniences of this was that it could not maintain an action-at-law for the most trivial

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debt, without an enumeration of all and each of the partners, and the slightest mistake in the spelling of a single name would, at that time, have vitiated any proceeding. This bank was the largest common law partnership which has existed in England. And all the London joint stock banks which were formed before the Statute 1844 c. 113, are nothing but common law partnerships. The excessive inconvenience attending this state of things led to a bill being brought into Parliament, to enable the London and Westminster Bank to sue and be sued in the name of its chairman. This was warmly opposed by the Bank of England, and by Lord Althorpe. Nothing could be more paltry than the reasons alleged by him in opposition to it,* but he was beaten by a majority of 141 to 35. The government, however, had influence enough to have the bill thrown out in the House of Lords. The bank applied to have a drawing account at the Bank of England, and to be admitted to the Clearing House, but both requests were refused.† As the Bill for enabling the bank to be sued, and to sue in the name of its chairman had been defeated, they adopted the plan of making all contracts through the medium of trustees, and all the London joint Stock banks had to adopt the plan, till the Joint Stock Banking Act of 1844.

7. A question, however, of very much greater importance soon arose. It was a settled question, that no partnership or corporation consisting of more than six persons could accept bills, at any less date than six months, no matter whether they were a banking partnership, or any other. It was clear, therefore, that the bank

* Hansard. Third Series, Vol. XXIII., p. 689.

† Gilbart's Practical Treatise on Banking. Vol. II, p. 400. Sixth Edition.

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could not itself directly accept bills. But it did not appear that the words of the Act prohibited *trustees* accepting bills for a less date, on behalf of the company. Nor, if trustees could accept, was there anything to prevent them accepting by procuration. Consequently, there appeared to be this method open, of circumventing the monopoly of the Bank of England. On the 21st of February, 1835, the Bank of St. Albans drew a bill for £25 upon the London and Westminster Bank, payable 21 days after date; which, on the 23rd, was presented for acceptance at the London and Westminster Bank, and was accepted in the following form:

Accepted,
At 36, Throgmorton-st., per procuration of
the trustees of the London and Westminster Bank.
J. W. GILBART, *Manager*.

8. The Bank of England moved for an injunction to restrain the bank from accepting bills in this form, and the case having been argued, the Court of Common Pleas held that it was an infraction of the Bank Charter Act of 1833, and the other Acts then in force respecting the Bank of England. Accordingly, the Master of the Rolls granted an injunction, restraining them from accepting bills at less than six months' date. The only result was, that the bank paid the bills drawn upon it, without acceptance. The London and Westminster Bank being defeated in this manner, the London Joint Stock entered the lists against the Bank of England in another form. It agreed with a bank in Canada, that the latter might draw upon Mr. George Pollard, who might accept in his own name, and the London Bank agreed to find the funds to meet Mr. Pollard's acceptance, and such transactions were to be matters of account between the two banks.

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Mr. Pollard was not a shareholder in the London Bank; but he was their manager, and the transaction was substantially an acceptance by the Bank. The House of Lords, however, declared this ingenious device to be illegal, as it was merely doing indirectly, what they were forbidden to do directly. Thus ended the attempts of the London joint stock banks to free themselves from this monstrous oppression, from which they were not relieved till the Act of 1844.

9. It was always held at common law, that a man could not sue himself. Consequently, if the same individual was member of two partnerships, they could not go to law against each other. The consequence of this was, that no partnership could sue one of its members, or *vice versâ*, and if the same person had shares in two different banks, they could not have sued each other for any demands, or debts. The Statute 1838, c. 96, was passed to remedy this anomalous state of matters; it enacted that a banking company might sue, or be sued, by any of its members, exactly as if they were separate individuals; and by the Statute 1840, c. 111, this was extended to criminal cases, so that if a member of such a banking partnership steals or embezzles any property belonging to it, of any description, or shall commit any offence against it, he may be indicted and convicted exactly as if he were a stranger.

10. It being unlawful for spiritual persons to engage in any trading concerns, and such partnerships of which any of its members were spiritual persons, being held to be void and illegal, it was suddenly found that most of the banking companies in England were illegal, and all their contracts void, because some of their shareholders were clergymen. The Act, Statute 1841, c. 14, was passed to remedy this, and declared that such partner-

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ships should not be illegal and void; and that their contracts should be not illegal and void, although some of their shareholders were clergymen.

11. The London and Westminster Bank was founded in the year 1834; the London Joint Stock Bank in 1836; the Union Bank in 1839; the London and County Bank in 1839; and the Commercial Bank in 1840; all these banks are founded on the same authority, being partnerships at Common Law, and not under the Act of 1826.

12. When the barrier to the formation of Joint Stock Banks were removed in 1826, they were left perfectly unshackled as to the provisions of their deeds of constitution, their nominal, and their paid-up capital, and all the details of management. As might have been expected, great mismanagement ensued, and led to parliamentary investigations in 1836 and 1837. One method they had of imposing upon the public was, that they might advertise any amount of nominal capital, but the public had no security that any of it, or how much of it was paid up, or how many shares were taken. The great abuses that were revealed determined Sir Robert Peel to bring all future joint stock banks more under the control of the Crown, and with this view the Government brought in a bill for their better regulation, which was passed, and is the Act, Statute 1844, c. 113.

13. It enacts, that in future, all banking copartnerships of more than six persons, were only to be established under a charter to be granted by the Crown on the recommendation of the Board of Trade. It enacts, that before beginning to exercise the business of banking, the Company should present a petition to her Majesty in Council, which must be signed by seven at least of the said Company, and set forth certain particulars therein

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mentioned. (Vide Appendix. Act 7 and 8 Vict. c. 113. s. 2.) These are,—

1. The names and additions of all the partners of the company, and the name of the street, square, or other place where each of the said partners reside.

2. The proposed name of the bank.

3. The name of the street, square, or other local description of the place or places where the business of the bank is to be carried on.

4. The proposed amount of the capital stock not being in any case less than £100,000, and the means by which it is to be raised.

5. The amount of capital stock then paid up, and where, and now invested.

6. The proposed number of shares in the business.

7. The amount of each share not being less than £100 each.

14. The deed of partnership was then to be prepared, according to a form to be approved of by the Board of Trade, and must contain specific provisions for the following purposes :—

1. For holding ordinary general meetings of the company once at least in every year, at an appointed time and place.

2. For holding extraordinary general meetings of the company upon the requisition of nine shareholders or more, having in the whole at least twenty-one shares in the partnership business.

3. For the management of the affairs of the company, and the election and qualifications of the directors.

4. For the retirement of at least one fourth of the directors yearly, and for preventing the re-election of the retiring directors, for at least twelve calendar months.

5. For preventing the company from purchasing any shares, or making advances of money, or securities for money, to any person in the security of a share, or shares in the partnership business.

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6. For the publication of the assets and liabilities of the company, once at least in every calendar month.

7. For the yearly audit of the accounts of the company by two or more auditors chosen at a general meeting of the shareholders, and not being directors at the time.

8. For the yearly communication of the auditors' report, and of a balance sheet, and profit and loss account to every shareholder.

9. For the appointment of a manager, or other officer, to perform the duties of manager.

15. The company is forbidden to commence business until all the shares are subscribed for, and the deed executed by all the shareholders, and not less than one half of each share paid up. The company might then receive a charter, incorporating them for a period not exceeding twenty years.

16. Although the company thus becomes a corporation, the liability of the shareholders is not to be limited; and this liability is to continue for three years after such shareholder has ceased to be a member of the Company. A great improvement, however, took place in the mode of recovering judgment against the Company, for, by the Act of 1826, a creditor upon obtaining judgment against the public officer is entitled to cause execution to be issued against the property, effects, and person of any shareholder of the Company, leaving him to recover against his partners as he best may. It is enacted by the Act of 1844, that execution against the Company must precede execution against any shareholder; and it is only in case of the execution against the Company being ineffectual that he can proceed against the shareholders individually. Nor can he have execution against any person who ceased to be a shareholder when the cause of action arose; nor more than three years after he has ceased to be a shareholder. The Act makes provision

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respecting several details in the constitution of such companies.

17. The Bank Act of 1844 allowed banking companies in London to accept bills at any date, so long as they are not payable to bearer on demand. The Act of 1844, c. 113, enables companies established under its provisions, to issue notes as well as bills, which are of course subject to the general provisions of the Bank Act, that they must not be payable to bearer on demand, which may be signed by one of the managers or directors of the Company.

18. This Act also allowed the existing London joint stock banks to sue and be sued in the name of public officers, like those established under the Act of 1826. It also allowed all existing joint stock banks to agree to alter their constitution, so as to comply with the provisions of the Act, and then they might be incorporated under it. No bank, however, has availed itself of this permission.

19. A banking company at Preston was in course of formation at the time this Act passed, and was the first included in its provisions. The first bank in London formed under this Act was the Royal British Bank, which need only be mentioned here, on account of a difference of opinion which arose between the directors of the Bank and the Board of Trade with respect to the construction and powers of the Banking Act of 1844, c. 113.

20. Most banks have thought it expedient to commence business with a moderate capital, and increase it afterwards as their business increased. The London and Westminster Bank began business with £50,000 paid up capital, which it has since increased to £1,000,000. The Charter of the Royal British Bank authorizes it to raise

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£2,000,000 of capital; but to commence business as soon as it had £100,000 subscribed, of which one half paid up, the minimum required by the Act. It also requires that an increase of capital beyond the first £100,000 can only be done by a supplementary charter to be granted by the Crown. It contains a clause that it should be lawful for the directors, with the consent of three-fourths in number and value of the shareholders present at a general meeting to be specially convened for that purpose, to present a petition to the Queen in Council, praying for leave to increase the capital of the Company to such an extent as they might think proper, not exceeding in the whole £1,900,000.

21. Accordingly, in July, 1850, a meeting was specially convened for the purpose, when the directors submitted the following resolution :—

"That in the pursuance of the LXVth Clause of the Deed of constitution, a petition be presented to the Queen in Council, praying for leave to increase the capital of the Corporation, by creating additional shares to such an extent not exceeding in the whole 19,000 shares of £100 each, as the Directors *may from time to time think proper.*"

22. This resolution was unanimously carried by the meeting, and in accordance with it, a petition was presented to the Queen in Council, which was referred to the Board of Trade. Here, however, a most extraordinary and unexpected difficulty met them. Nothwithstanding that the grant of a supplementary charter is specifically mentioned in the original charter, the Board of Trade entertained very serious doubts whether it was in the power of the Crown to grant such a supplemental charter at all! And in the next place, their legal adviser maintained that if one were granted, it must be in exact accordance with their original charter.

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23. If this had been held to be good law, it would have been productive of much inconvenience and expence to the Bank; for one of the stipulations of the original Charter was, that unless all the shares were subscribed for within twelve months, the Charter should be void, and the Corporation at an end. The consequence would have been this, that if the Bank had applied for, and obtained a supplemental Charter, authorising them to increase their capital by the sum of £1,900,000, unless the *whole* stock was taken up within twelve months, the supplementary Charter would have been void, and the capital could not have been increased at all. Or else, if they applied for a smaller sum, they would have to go through the formality, trouble, and expense of obtaining a new supplementary Charter for each increase. Moreover, the legal adviser of the Board of Trade was of opinion, that no increase of capital could take place in smaller sums than £100,000 at a time.

24. The directors of the Bank thought that these conditions were expensive and oppressive to them, and moreover totally groundless in point of law. Their object was to obtain a supplementary Charter, authorizing them to increase the capital up to a certain amount, but by such sums, and at such times as *they* considered best for the interests of the Bank. Nothing could have been more absurd than for a young bank to have gone at once, and increased its capital to £1,000,000 paid up. Moreover, they could not have done it in the time limited by the original Charter. But because they did not choose to add £900,000 all at once, were they not to be permitted to add £50,000, or £25,000 if they pleased? Would not each accretion be an additional security to the Bank? Moreover, they alleged that the power of doing so was expressly reserved in their original charter. Nothing

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could shake the opinion of the legal adviser of the Board of Trade; the directors of the Bank were equally firm in their opinion; and so matters went on for four years. At last, the Board of Trade determined to refer the question to the law officers of the Crown, who gave their opinion in favor of the directors of the Bank; and, in accordance with this, they obtained a supplementary charter, authorizing them to increase the capital of the Bank by the sum of £500,000, in such sums, and at such times as they considered best. But no increase was to be advertized as capital, except in the *London Gazette*, without a certificate from the Board of Trade, that it had been duly subscribed for, and one half paid up, and such certificate was not to be applied for for sums less than £10,000 at a time.

25. After this no new banks were formed in London for several years, until 1855, when the Bank of London and the City Bank were established, and commenced business, and several other banks are at present in course of formation.

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CHAPTER XVII.

CONCLUDING OBSERVATIONS.

THE SYSTEM OF BANKING IN ENGLAND IS IN A STATE OF TRANSITION.—FORM WHICH IT WILL ULTIMATELY ASSUME.—INEVITABLE TENDENCY TOWARDS DECAY OF PRIVATE BANKING.—CONCLUSION.

1. The system of banking in this country, is in a state of transition, and it will be many years before it settles down into its natural state, by which we mean the form that it would have assumed, if it had been left free from legislative interference.

2. When men saw the whole of England shaken from end to end with those terrible banking catastrophes, which seemed to be of periodical recurrence, they turned to the example of a country, where though there had been commercial difficulty, there never had been any banking disasters at all comparable to those in England. They naturally, therefore, clamoured for the Scotch system; thinking, that because the Scotch banks were joint stock banks, that therefore, joint stock banking was all that was requisite to attain security.

3. When, therefore, the monopoly of the bank was broken up in 1826, they expected to enjoy similar prosperity and safety that Scotland had done, and when after

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some years experience, they found that the joint stock banks were scarcely more secure, and equally ill-managed as the private banks, great disappointment ensued, and joint stock banking became a byeword of reproach.

4. But in truth the causes of this are very evident. In Scotland, the growth of banking had been extremely gradual. The first large joint stock bank was founded in 1695, the second in 1727, the third in 1746, and except a few country ones, no new large one was founded till 1810. The consequence was, that, they gradually expanded with the increasing wealth of the country. They grew with its growth. Moreover, they correspondingly increased their capital. Consequently, they acquired experience, after committing many errors it is true, which brought them to the brink of destruction. When the country required additional accommodation, it was done chiefly by throwing out branches from the great parent establishments in the metropolis; so that they had all the experience and effective control of the superior officers. At the present time there are but 17 distinct establishments in the country, but these have 460 branches, extending into every village in the kingdom, so that banking accommodation is ample and abundant. But these are all independent institutions, depending upon their own wealth and resources, and except perhaps, in the case of a sudden run upon one of them, never seeking assistance from each other. To suppose that the English system of joint stock banking bore any similarity to this would be the most egregrious fallacy, and it was this difference partly which led to those disastrous consequences which are too well-known to need repeating.

5. There are, in truth, laws of nature in the industrial world, as well as in the moral and the physical world; and a systematic attempt to violate these, terminates

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in disaster as surely and as certainly as a systematic disregard of the laws of nature in the physical world. It may be a long time before the mischief is developed; nay, for a considerable time the results may appear to be beneficial, but in the long run the faulty principle is sure to produce its fruits;—

"Raro antecedentem scelestum,
Deseruit pede pœna claudo."

6. Now, the great law of nature in the industrial world is FREE TRADE. There is nothing more certain in all the range of science, than that exclusive privileges in commerce are great violations of natural right. Trading monopolies are moral crimes. When parliament sold to the Bank of England the exclusive monopoly of banking, IT SOLD WHAT IT HAD NO RIGHT TO SELL. It had no more right to sell to one body of persons the exclusive right of carrying on the business of banking, than it had to sell a monopoly of the business of bookselling, or leather-dressing, or any other trade whatever. This monopoly was as unjust, and as pernicious as any of those which the Commons of Elizabeth and James I. had rebelled against. For a considerable period everything seemed to go well. The Bank of England rendered unquestionable services to the State,—so might any other trading corporation in its line—and any other corporation might have done the same if they had been permitted. But, nevertheless, the principle of the monopoly was utterly vicious; and time, the avenger, brought retribution at last. When, in the natural course of events, the commerce and the wealth of the country demanded an increased currency, and save for this monopoly, powerful and wealthy companies would have been formed in the me-

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tropolis, with ramifications all over the country, and with local banks in the great towns, these unjustifiable privileges of the Bank of England prevented it. The Bank could not, or would not, either itself supply the currency, nor permit other companies to do so. The consequence was, that the duty of supplying the necessary currency fell into the hands of any grocer or linendraper who chose to call himself a banker. Their power was unlimited. Then came 1793; then 1797; then the long series of disasters from 1810 to 1816; then 1825.

7. When these terrible lessons at length effected a breach in the monopoly of the Bank, it was only a partial one, a large portion still continued exercising its deadly influence. When the new joint stock banks were formed, they were merely local banks, all as dependent on the Bank of England as the private banks had been. The Bank maintained its exclusive privileges within 65 miles of the metropolis. And this was the inherent vice of the English system of joint stock banking. Instead of being independent banks, based upon their own resources, and able to withstand a shock of their own strength, they were chiefly of inadequate capital, and carried on upon the most dangerous principle of re-discounting the bills they bought. Their very existence depended upon the action of the Bank of England, and the London bill brokers.

8. To suppose that this in any way resembled the Scotch system, would be a gross fallacy. The banks were forbidden to have establishments in the metropolis, which, of all others, is the best feature in the Scotch system. There it had grown up gradually with the commerce of the country, but in England, when the field was suddenly thrown open, a multitude of banks were esta-

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blished in all directions, without any connection with each other. The persons engaged in them had no experience in banking. Then, of course, naturally followed mismanagement and disaster. And, it was not until 1833, that the discovery that a comparatively speaking unimportant change in the method of doing business permitted joint stock banks to be formed in the metropolis, was acted upon.

9. Now, if it had not been for this iniquitous monopoly of the Bank, what would probably have been the condition of English Banking at the present day? There would probably have been 30 or 40 great banks in the metropolis, each as great as the present Bank of England, with ramifications and branches all over the country. It would, in fact, have been the Scottish system on a much larger scale, one commensurate with the greater magnitude of the country. And this is the result to which things are tending, and this is the form which English banking will ultimately assume. And if it had been permitted to assume this natural form from the beginning, we believe that these terrible catastrophes never would have occurred. If such banks had existed, they would have supported and strengthened the Bank of England in any public crisis, but when any shock did occur under the other system, instead of being any support to the Bank, they, themselves, depended upon it for their very existence.

10. It is a melancholy reflection that these great changes cannot take place without producing much injury to private individuals. The very obnoxious law itself gave birth to the business of a number of persons, which the removal of the shackles of monopoly must necessarily extinguish. In 1832, the banking witnesses felt that the establishment of joint stock banks would be

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fatal to the existence of many of the private bankers, and some went so far as to wish to prohibit them on that account. Since these 24 years have passed, we have undergone a mighty revolution of opinion in commercial matters. The ideas of that age are now as antiquated and obsolete as those of the men before the flood. Then, the general public was supposed to be made for the benefit of each separate monopoly, and interest and class. But now all that is changed. It was akin to the great Ricardian heresy, that cost of production regulates value. Every interest which had bestowed labor and expense in making productions, was allowed to hold the public in thraldom. The value of the law appeared to be measured by the quantity of labor bestowing in mastering its disgusting intricacies and technicalities. Obstinate pedants maintained it gravely as a valid argument for upholding all the old abuses of the law, that great and eminent men had bestowed so much labor and unhappy diligence in accumulating so much legal lore. What, said they, is the fruit of so much ingenuity to be thrown away? In fact, they determined upon loading the public with all sorts of oppression for the sake of preserving a fictitious value to so much mis-directed industry.

11. But all these ideas are now past and gone. They were congenial to times when education was narrowed to a small and select circle, and the general public was in a state of helpless and inert ignorance. But they have all been swept away before the advancing tide of public intelligence. It is now well settled that the community in general is not made for the benefit of agriculturists, or manufacturers, or lawyers, or bankers, or any set of men whatever, but they are for the benefit of the country. It is the wants of the community which must give rise to the value of their occupations; and all who

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engage in them, must regard them as purely commercial speculations. The wants and requirements of all are not to be restricted or moulded by legislation to be subservient to the advantages of a few, but the interests of particular classes must be subordinate to the necessities of all.

12. We have carefully and purposely abstained throughout this work, from making any invidious comparisons between the merits of private and joint stock banking. All we say is, let each of them have full and fair play, and let the public generally choose which they think most suitable for their purposes. Some will prefer one, and some the other. Each, then, will find its own level; and the public wants will maintain in existence a sufficient supply of each. But it is impossible to be blind to facts. It is impossible not to see that the days of the private bankers, generally, in England, are numbered. A few of the most eminent may long continue to flourish; houses which are an honor to commerce, and present all the security and power of any joint stock bank. But it is impossible not to see that the force of nature is against them. The connections of the joint stock banks are so numerous, and ramified through all ranks of society, that inevitable decay awaits the great bulk of private banks. They will maintain their hereditary and long established connections for some time to come, but most of the new business will go to the joint stock banks. Every case of failure and mis-management of a private banker will tend to shake the credit of the majority of the remainder. But no failure of a joint stock bank can destroy the system, because however much the shareholders may suffer, the customers and depositors will seldom suffer. Seeing, then, this inevitable tendency, would it not be well for the private bankers

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to unite and form themselves into a powerful company, and preserve their business and existence?

13. We have now brought this work to a conclusion. In the course of it we have had to differ from many persons who are considered as authorities on the subject. But if we had not perceived what we felt to be great errors in their writings there would have been no need of attempting it. But we have not gone beyond that freedom of discussion which is the very lifeblood of knowledge. The same evil which infected the progress of every other branch of philosophy, injuriously affects this subject at the present day—running after *authorities*, —quoting authorities on one side or the other, without ever investigating or reflecting whether what these so-called authorities say is true, in many cases without sufficient knowledge of the subject to decide. In matters of taste, authorities are much—in matters of science authorities are NOTHING. We acknowledge no authority. We have great respect for the industry, and ability, and sagacity which have won so honourable a name for Adam Smith, and succeeding writers. But we refuse to be bound by Adam Smith, or by what any one says, unless we are satisfied that what they say is true. We shall not be deterred from exercising the same free and boundless right of examining and discussing every opinion and doctrine put forth by them, exactly as all the greatest philosophers do with regard to Newton. They examine, discuss, and reject, whatever is unsound in Newton with unlimited freedom. They only accept what they know and feel to be irresistibly true, according to an acknowledged standard of truth. They do not receive it *because* Newton says it, but because it is true. We do the same. We have endeavoured rigidly to adhere to the same method. They deduce their general rules from the accu-

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rate examination and description of experiments; we endeavour to deduce general rules from an accurate observation and description of monetary phenomena, and we appeal to the same great general principles of reasoning that they do. It is the Baconian method; the only method of discovering and erecting a solid edifice of science. Except in those abstruse mysteries of nature which far transcend the limits of the capacity of the great majority of mankind to discover, or even to comprehend, there is no nobler field open at the present day for the extension of scientific research than Political Economy. But it must be done in the rigid method of the Baconian system; no other can lead to solid and durable success. The army of Bacon has gone forth conquering and to conquer, and must never pause in its victorious career, until universal science is brought under the dominion of the Monarch of Philosophy.

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APPENDIX.

7 & 8 Vict. CAP. CXIII.

An Act to regulate Joint Stock Banks in *England*.

[5th *September*, 1844.]

No Joint Stock Bank established after 6th May last to carry on Business unless by virtue of Letters Patent granted according to this Act; but Companies previously established not restrained from carrying on Business until Letters Patent have been granted.

WHEREAS the laws in force for the Regulation of Copartnerships of Bankers in *England* need to be amended: Be it enacted by the Queen's most Excellent Majesty, by and with the Advice and Consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the Authority of the same, That it shall not be lawful for any Company of more than Six Persons to carry on the Trade or Business of Bankers in *England*, after the passing of this Act, under any Agreement or Covenant of Copartnership made or entered into on or after the Sixth day of *May* last passed, unless by virtue of Letters Patent to be granted by Her Majesty according to the Provisions of this Act; but nothing herein contained shall be construed to restrain any such Company established before the said Sixth day of *May*, for the purpose of carrying on the same Trade or Business of Bankers in *England*, from continuing to carry on the said Trade and Business as legally as they might have done before the passing of this Act, until Letters Patent shall have been granted to them severally on their Application, as herein-after provided, to be made subject to the Provisions of this Act.

Company to petition for Charter.

II. And be it enacted, That before beginning to exercise the said Trade or Business every such Company shall present a Petition to Her Majesty in Council, praying that Her Majesty will be graciously pleased to grant to them Letters Patent under this Act; and every such Petition shall be signed by Seven at least of the said Company, and shall set forth the following Particulars; (that is to say,)

First, The Names and Additions of all the Partners of the Company, and the Name of the Street, Square, or other Place where each of the said Partners reside:

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Second, The proposed Name of the Bank:
Third, The Name of the Street, Square, or other local Description of the Place or Places where the Business of the Bank is to be carried on:
Fourth, The proposed Amount of the Capital Stock, not being in any Case less than One hundred thousand pounds, and the Means by which it is to be raised:
Fifth, the Amount of Capital Stock then paid up, and where and how invested:
Sixth, The proposed Number of Shares in the Business:
Seventh, The Amount of each Share, not being less than One hundred Pounds each.

Charter to be granted on Report of Board of Trade.

III. And be it enacted, That every such Petition shall be referred by Her Majesty to the Committee of Privy Council for Trade and Plantations, and so soon as the Lords of the said Committee shall have reported to Her Majesty that the Provisions of this Act have been complied with on the Part of the said Company, it shall thereupon be lawful for Her Majesty, if Her Majesty shall so think fit, with the Advice of Her Privy Council, to grant the said Letters Patent.

Deed of Settlement.

IV. And be it enacted, That the Deed of Partnership of every such Banking Company shall be prepared according to a Form to be approved by the Lords of the said Committee, and shall, in addition to any other Provisions which may be contained therein, contain specific Provisions for the following Purposes; (that is to say,)
First, For holding Ordinary General Meetings of the Company once at least in every Year, at an appointed Time and Place:
Second, For holding Extraordinary General Meetings of the Company upon the Requisition of Nine Shareholders or more, having in the whole at least Twenty-one Shares in the Partnership Business:
Third, For the Management of the Affairs of the Company, and the Election and Qualification of the Directors:
Fourth, For the Retirement of at least One Fourth of the Directors yearly, and for preventing the Re-election of the retiring Directors for at least Twelve Calendar Months:
Fifth, For preventing the Company from purchasing any Shares or making Advances of Money, or Securities for Money, to any Person on the Security of a Share or Shares in the Partnership Business:
Sixth, For the Publication of the Assets and Liabilities of the Company once at least in every Calendar Month:
Seventh, For the yearly Audit of the Accounts of the Company by Two or more Auditors chosen at a General Meeting of the Shareholders, and not being Directors at the Time:
Eighth, For the yearly Communication of the Auditors' Report, and of a Balance Sheet, and Profit and Loss Account, to every Shareholder:
Ninth, For the Appointment of a Manager, or other Officer to perform the Duties of Manager:

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And such Deed, executed by the Holders of at least One Half of the Shares in the said Business, on which not less than Ten Pounds on each such Share of One Hundred Pounds, and in proportion for every Share of larger amount, shall have been then paid up, shall be annexed to the Petition; and the Provisions of such Deed, with such others as to Her Majesty shall seem fit, shall be set forth in the Letters Patent.

No Company to commence Business till Deed executed, and all the Shares subscribed for, and at least Half the Amount paid up.

V. Provided always, and be it enacted, that it shall not be lawful for any such Company to commence Business until all the Shares shall have been subscribed for, and until the Deed of Partnership shall have been executed personally, or by some Person duly authorized by Warrant of Attorney to execute the same on behalf of such Holder or Holders, by the Holders of all the Shares in the said Business, and until a Sum of not less than One Half of the Amount of each Share shall have been paid up in respect of each such Share; and it shall not be lawful for the Company to repay any part of the sum so paid up without leave of the Lords of the said Committee.

Company to be incorporated.

VI. And be it enacted, that it shall be lawful for Her Majesty in and by such letters patent to grant that the Persons by whom the said Deed of Partnership shall have been executed, and all other persons who shall thereafter become Shareholders in the said Banking Business, their executors, Administrators, Successors, and Assigns respectively, shall be One Body Politic and Corporate, by such name as shall be given to them in and by the said Letters Patent, for the Purpose of carrying on the said Banking Business, and by that Name shall have perpetual Succession and a Common Seal, and shall have Power to purchase and hold Lands of such annual Value as shall be expressed in such Letters Patent; and such Letters Patent shall be granted for a Term of Years not exceeding Twenty Years, and may be made subject to, such other Provisions and Stipulations as to Her Majesty may seem fit.

Incorporation not to limit the Liability of the Shareholders.

VII. Provided always, and be it enacted, That notwithstanding such Incorporation the several Shareholders for the Time being in the said Banking Business, and those who shall have been Shareholders therein, and their several Executors, Administrators, Successors, and Assigns, shall be and continue liable for all the Dealings, Covenants, and Undertakings of the said Company, subject to the Provisions hereinafter contained, as fully as if the said Company were not incorporated.

Actions by or against Shareholders.

VIII. And be it enacted, that no Action or Suit by or against the Company shall be in anywise affected by reason of the Plaintiff or Defendant therein being a Shareholder or former Shareholder of the Company;

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but any such Shareholder, either alone or jointly with another Person as against the Company, or the Company as against any such Shareholder, either alone or jointly with any other Person, shall have the same Action and Remedy in respect of any cause of Action or Suit whatever which such Shareholder or Company might have had if such Cause of Action or Suit had arisen with a Stranger.

Decree or Judgment to be enforced against Company and Shareholders.

IX. And be it enacted, that every Judgment, Decree, or Order of any Court of Justice in any Proceeding against the Company may be lawfully executed against, and shall have the like Effect on, the Property and Effects of the Company, and also, subject to the Provisions hereinafter contained, upon the Person, Property, and Effects of every Shareholder and former Shareholder thereof, as if every individual Shareholder and former Shareholder had been by Name a Party to such Proceeding.

Execution against Company to precede Execution against present or former Shareholders. Extent of Liability of former Shareholders.

X. And be it enacted, That it shall be lawful for the Plaintiff to cause Execution upon any Judgment, Decree, or Order obtained by him in any such Action or Suit against the Company to be issued against the Property and Effects of the Company; And if such Execution shall be ineffectual to obtain Satisfaction of the Sums sought to be recovered thereby, then it shall be lawful for him to have Execution in Satisfaction of such Judgment, Decree, or Order against the Person, Property, and Effects of any Shareholder, or, in default of obtaining Satisfaction of such Judgment, Decree, or Order from any Shareholder, against the Person, Property, and effects of any Person who was a Shareholder of the Company at the Time when the Cause of Action against the Company arose: Provided always, that no Person having ceased to be a Shareholder of the Company shall be liable for the payment of any Debt for which any such Judgment, Decree, or Order shall have been so obtained, for which he would not have been liable as a Partner in case a suit had been originally brought against him for the same, or for which Judgment shall have been obtained, after the Expiration of Three Years from the Time when he shall have ceased to be a Shareholder of such Company; nor shall this Act be deemed to enable any Party to a Suit to recover from any individual Shareholder of the Company, or any other Person whomsoever, any other or greater Sum than might have been recovered if this Act had not been passed.

Reimbursement of Individual Shareholders.

XI. And be it enacted, that every person against whom or against whose Property or Effects any such Execution shall have issued shall be reimbursed out of the Property and Effects of the Company for all monies paid, and for all Damages, Costs, and Expenses incurred by him by reason of such Execution, or of the Action or Suit in which the same shall have issued, or, in default of such Reimbursement, by Contribution from the other Shareholders of the Company.

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Individuals paying under Execution.

XII. And be it enacted, That if any such Execution be issued against any present or former Shareholder of the Company, and if, within Fourteen Days next after the levying of such Execution, he be not reimbursed, on Demand, out of the Property and Effects of the Company, all such Monies, Damages, Costs, and Expenses as he shall have paid or incurred in consequence of such Execution, it shall be lawful for such Shareholder, or his Executors or Administrators, to have Execution against the Property and Effects of the Company in satisfaction of such Monies, Damages, Costs, and Expenses; and the Amount of such Monies, Damages, Costs, and Expenses shall be ascertained and certified by One of the Masters or other Officer of the Court out of which such Execution shall issue.

How such Execution is to be had.

XIII. And be it enacted, That in the Cases provided by this Act for Execution on any Judgment, Decree, or Order in any Action or Suit against the Company, to be issued against the Person or against the Property and Effects of any Shareholder or former Shareholder of such Company, or against the Property and Effects of the Company at the Suit of any Shareholder or former Shareholder, in satisfaction of any Monies, Damages, Costs, and Expenses paid or incurred by him as aforesaid in any Action or Suit against the Company, such Execution may be issued by Leave of the Court, or of a Judge of the Court in which such Judgment, Decree, or Order shall have been obtained, upon Motion or Summons for a Rule to show cause, or other Motion or Summons consistent with the Practice of the Court, without any Suggestion or Scire facias in that Behalf, and that it shall be lawful for such Court or Judge to make absolute or discharge such Rule, or allow or dismiss such Motion, (as the Case may be,) and to direct the Costs of the Application to be paid by either Party, or to make such Order therein as to such Court or Judge shall seem fit; and in such Cases such Form of Writs of Execution shall be sued out of the Courts of Law and Equity respectively, for giving effect to the Provision in that Behalf aforesaid, as the Judges of such Courts respectively shall from Time to Time think fit to order, and the Execution of such Writs shall be enforced in like Manner as Writs of Execution are now enforced; provided that any Order made by a Judge as aforesaid may be discharged or varied by the Court, on Application made thereto by either Party dissatisfied with such Order; provided also, that no such Motion shall be made nor Summons granted for the Purpose of charging any Shareholder or former Shareholder until Ten Days Notice thereof shall have been given to the Person sought to be charged thereby.

Contribution to be recovered from other Shareholders.

XIV. And be it enacted, That if such Shareholder be not by the Means aforesaid fully paid all such Monies, with Interest, Damages, Costs, and Expenses, as he shall have paid or incurred by reason of any such Execution, it shall be lawful for him, his Executors or Adminstrators, to divide the Amount thereof, or so much thereof as he shall not have been reimbursed, into as many equal Parts as there shall then be Shares in the

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Capital Stock of the Company (not including Shares then under Forfeiture); and every Shareholder for the Time being of the Company, and the Executors or Administrators of every deceased Shareholder, shall, in proportion to the Number of Shares which they may hold in the Company, pay One or more of such parts, upon Demand, to the Shareholder against whom such Execution shall have been issued, or to his Executors or Administrators, and upon Neglect or Refusal so to pay, it shall be lawful for such Shareholder, his Executors or Administrators, to sue for and recover the same against the Shareholder, or the Executors or Administrators of any Shareholder, who shall so neglect or refuse as aforesaid, in any of Her Majesty's Courts of Record at *Westminster*, or in any other Court having Jurisdiction in respect of such Demand.

Further Remedy in case of Bankruptcy, &c. of Company's Shareholders.

XV. And be it enacted, That if the Shareholder or former Shareholder against whom any such Execution shall have issued, his Executors or Administrators, shall, by reason of the Bankruptcy or Insolvency of any Shareholder, or from any other Cause, but without any Neglect or wilful Default on his own Part, be prevented from recovering any Proportion of the Monies, Costs, or Expenses which he shall have so paid, it shall be lawful for him, his Executors or Administrators, again to divide the Amount of all such Monies, Costs, and Expenses as shall not have been recovered by him or them into as many equal Parts as there shall then be Shares in the Capital Stock of the Company (not including the Shares then under Forfeiture), except the Shares in respect of which such Default shall have happened; and every Shareholder for the Time being of the Company, and the Executors or Administrators of every deceased Shareholder, except as aforesaid, shall rateably, according to the Number of Shares which they shall hold in the Company, upon Demand, pay One or more such last-mentioned Parts to the Shareholder against whom such Execution shall have issued, his Executors or Administrators; and in default of Payment he or they shall have the same Remedies in all respects for the Recovery thereof as under the Provisions herein-before mentioned are given in respect of the original Proportions of such Monies, Damages, Costs, and Expenses; and if any Proportion of the said Monies, Damages, Costs, and Expenses shall remain unpaid by reason of any such Bankruptcy, Insolvency, or other Cause as aforesaid, such Shareholder, his Executors or Administrators, shall have in like Manner, from Time to Time, and by way of accumulative Remedy, the same Powers, according to the Circumstances of the Case, of again dividing and enforcing Payment of the Amount of such Proportion, until he or they shall, in the End, if a former Shareholder, be fully reimbursed the whole of the said Monies, Costs, and Expenses, and if then a Shareholder, the whole excepting the Portions belonging to the Shares held by him.

Memorial to be registered.

XVI. And be it enacted, That within Three Months after the Grant of the said Letters Patent, and before the Company shall begin to carry on their Business as Bankers, an Account or Memorial shall be made out, according to the Form contained in the Schedule marked (A.) to this Act

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annexed, wherein shall be set forth the true Title or Firm of the Company, and also the Names and Places of Abode of all the Members of such Company as the same respectively shall appear on the Books of such Company, and also the Name and place of abode of every Director and Manager or other like Officer of the Company, and the Name or Firm of every Bank or Banks established or to be established by such Company, and also the Name of every Town or Place where the Business of the said Company shall be carried on; and a new Account or Memorial of the same Particulars shall be made by the said Company in every Year, between the twenty-eighth day of *February* and the twenty-fifth day of *March*, while they shall continue to carry on their Business as Bankers; and every such Memorial shall be delivered to the Commissioners of Stamps and Taxes at the Stamp Office in *London*, who shall cause the same to be filed and kept in the said Stamp Office, and an Entry or Registry thereof be made in a Book or Books to be kept there for that Purpose by some Person or Persons to be appointed by the said Commissioners in that Behalf, which Book or Books any Person or Persons shall from Time to Time have Liberty to search and inspect on Payment of the Sum of One Shilling for every Search; and the Company shall from Time to Time cause to be printed and kept, in a conspicuous Place, accessible to the Public, in their Office or Principle Place of Business, a List of the registered Names and Places of Abode of all the Members of such Company for the Time being.

Memorials of occasional Changes.

XVII. Provided also, and be it enacted, That the Manager or one of the Directors of every such Company shall, from Time to Time as Occasion shall require, make out in manner herein-before directed, and cause to be delivered to the Commissioners of Stamps and Taxes as aforesaid, a further Account or Memorial, according to the Form contained in Schedule marked (B.) to this Act annexed, of the Name and Place of Abode of every new Director, Manager, or other like Officer of such Company, and also of the Name or Names of any Person or Persons who shall have ceased to be Members of such Company, and also of the Name or Names of any Person or Persons who shall have become a Member or Members of such Company, either in addition to or instead of any former Member or Members thereof, and of the Name or Names of any new or additional Town or Towns, Place or Places, where the Business of the said Company is carried on; and such further Account or Memorial shall from Time to Time be filed, and kept and entered and registered at the Stamp Office in *London*, in like Manner as is herein-before required with respect to the original or annual Account or Memorial herein-before directed to be made.

Form of Memorials—5 & 6 *W.* 4, *c.* 62.

XVIII. And be it enacted, That the several Memorials aforesaid shall be signed by the Manager or one of the Directors of the Company, and shall be verified by a Declaration of such Manager or Director before a Justice of the Peace, or a Master or Master Extraordinary of the High Court of Chancery, made pursuant to the Provisions of an Act passed in the Sixth Year of His late Majesty's Reign, intituled, *An Act to repeal*

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an Act of the present Session of Parliament, intituled 'An Act for the 'more effectual Abolition of Oaths and Affirmations taken and made in 'various Departments of the State, and to substitute Declarations in lieu 'thereof, and for the more entire Suppression of voluntary and extra-'judicial Oaths and Affidavits;' and to make other Provisions for the Abolition of unnecessary Oaths; and if any Declaration so made shall be false in any material Particular the Person wilfully making such false Declaration shall be guilty of a Misdemeanor.

Evidence of Memorials.

XIX. And be it enacted, That a true Copy of any such Memorial, certified under the Hand of one of the Commissioners of Stamps and Taxes for the Time being, upon Proof made that such Certificate has been signed with the Handwriting of the Person certifying the same, whom it shall not be necessary to prove to be a Commissioner of Stamps and Taxes, shall be received in Evidence as Proof of the Contents of such Memorial, and Proof shall not be required that the Person by whom the Memorial shall purport to be verified was, at the Time of such Verification, the Manager or one of the Directors of the Company.

Commissioners of Stamps to give certified Copies on Payment of Ten Shillings.

XX. And be it enacted, That the said Commissioners of Stamps and Taxes for the Time being shall, upon Application made to them by any Person or Persons requiring a Copy, certified according to this Act, of any such Account or Memorial as aforesaid, in order that the same may be produced in Evidence, or for any other purpose, deliver to the Person or Persons so applying for the same such certified Copy, he, she, or they paying for the same the Sum of Ten Shillings and no more.

Existing Liabilities to continue till new Memorials.

XXI. And be it enacted, That the Persons whose names shall appear from time to time in the then last delivered Memorial, and their legal Representatives, shall be liable to all legal Proceedings under this Act, as existing Shareholders of the Company, and shall be entitled to be reimbursed, as such existing Shareholders only, out of the Funds or Property of the Company, for all Losses sustained in consequence thereof.

Bills and Notes to be signed by One Director or Manager. Manager not personally liable.

XXII. And be it enacted, That all Bills of Exchange or Promissory Notes made, accepted, or endorsed on behalf of the said Company may be made, accepted, or endorsed (as the Case may be) in any Manner provided by the Deed of Partnership, so that they be signed by one of the Managers or Directors of the Company, and be by him expressed to be so made, accepted, or endorsed by him on behalf of such Company: Provided always, that nothing herein contained shall be deemed to make any such Manager or Director liable upon any such Bill of Exchange or Promissory Note to any greater Extent, or in a different Manner than

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upon any other Contract signed by him on behalf of any such Company; and that every such Company, on whose behalf any Bill of Exchange or Promissory Note shall be made, accepted, or endorsed in manner and form as aforesaid, may sue and be sued thereon as fully as in the Case of any Contract made and entered into under their Common Seal.

Transfers of Shares to be registered, &c.

XXIII. And be it enacted, That, subject to the Regulations herein contained, and to the Provisions of the Deed of Settlement, every Shareholder may sell and transfer his Shares in the said Company by Deed duly stamped, in which the Consideration shall be truly stated; and such Deed may be according to the Form in the Schedule marked (C.) annexed to this Act, or to the like Effect; and the same (when duly executed) shall be delivered to the Secretary, and be kept by him; and the Secretary shall enter a Memorial thereof in a Book, to be called the "Register of Transfers," and shall endorse such Entry on the Deed of Transfer, and for every such Entry and Endorsement the Company may demand any Sum not exceeding Two Shillings and Sixpence; and until such Transfer have been so delivered to the Secretary as aforesaid the Purchaser of the Share shall not be entitled to receive any Share of the Profits of the said Business, or to vote in respect of such Share.

Transfer not to be made until all Calls paid.

XXIV. And be it enacted, That no Shareholder shall be entitled to transfer any Share until he shall have paid all Calls for the Time being due on every Share held by him.

Closing of Transfer Books.

XXV. And be it enacted, That the Directors may close the Register of Transfers for a Period not exceeding Fourteen Days previous to each Ordinary Meeting, and may fix a Day for the closing of the same, of which Seven Days Notice shall be given by Advertisement in some Newspaper as after mentioned; and any Transfer made during the Time when the Transfer Books are so closed shall, as between the Company and the Party claiming under the same, but not otherwise, be considered as made subsequently to such Ordinary Meeting.

Transmission of Shares by other Means than Transfer to be authenticated by a Declaration.

XXVI. And with respect to the Registration of Shares the Interest in which may have become transmitted in consequence of the Death or Bankruptcy or Insolvency of any Shareholder, or in consequence of the Marriage of a Female Shareholder or by any other legal Means than by a Transfer according to the Provisions of this Act, be it enacted, That no Person claiming by virtue of any such Transmission shall be entitled to receive any Share of the Profits of the said Business, or to vote in respect of any such Share as the Holder thereof, until such Transmission have

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been authenticated by a Declaration in Writing as herein-after mentioned, or in such other Manner as the Directors shall require; and every such Declaration shall state the Manner in which, and the Party to whom such Share shall have been so transmitted, and shall be made and signed by some credible Person before a Justice of the Peace, or before a Master or Master Extraordinary in the High Court of Chancery; and such Declaration shall be left with the Secretary, and thereupon he shall enter the Name of the Person entitled under such Transmission in the Register Book of Shareholders of the Company; and for every such Entry the Company may demand any Sum not exceeding Two Shillings and Sixpence.

Proof of Transmission by Marriage, Will, &c.

XXVII. And be it enacted, That if such Transmission be by virtue of the Marriage of a Female Shareholder, the said Declaration shall contain a Copy of the Register of such Marriage, or other Particulars of the Celebration thereof, and shall declare the Identity of the Wife with the Holder of such Share; and if such Transmission have taken place by virtue of any testamentary Instrument, or by Intestacy, the Probate of the Will or Letters of Administration, or an official Extract therefrom, shall, together with such Declaration, be produced to the Secretary; and upon such Production, in either of the Cases aforesaid, the Secretary shall make an Entry of the Declaration in the said Register of Transfers.

Notices to joint Proprietors of Shares.

XXVIII. And be it enacted, That with respect to any Share to which several Persons may be jointly entitled, all Notices directed to be given to the Shareholders shall be given to such of the said Persons whose Name shall stand first in the Register of Shareholders; and Notice so given shall be sufficient Notice to all the Proprietors of such Share.

Receipts for Money payable to Minors, &c.

XXIX. And be it enacted, That if any Money be payable to any Shareholder, being a Minor, Idiot, or Lunatic, the Receipt of the Guardian of such Minor, or the Receipt of the Committee of such Idiot or Lunatic shall be a sufficient Discharge to the Company for the same.

Company not bound to regard Trusts.

XXX. And be it enacted, That the Company shall not be bound to see to the Execution of any Trust, whether express, implied, or constructive, to which any of the said Shares may be subject; and the Receipt of the Party in whose name any such Share shall stand in the Books of the Company shall from Time to Time be a sufficient Discharge to the Company for any Dividend or other Sum of Money payable in respect of such Share, notwithstanding any Trusts to which such Share may then be subject, and whether or not the Company have had Notice

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of such Trusts; and the Company shall not be bound to see to the Application of the Money paid upon such Receipt.

Power to make Calls.

XXXI. And be it enacted, That from Time to Time the Directors may make such Calls of Money upon the respective shareholders, in respect of the Amount of Capital Stock respectively subscribed by them, as they shall think fit; and whenever Execution upon any Judgment against the Company shall have been taken out against any Shareholder, the Directors within Twenty-one Days next after notice shall have been served upon the Company of the Payment of any Money by such Shareholder, their Executors or Administrators, in or toward Satisfaction of such Judgment, shall make such Calls upon all the Shareholders as will be sufficient to reimburse to such Shareholder, his Executors or Administrators, the Money so paid by him or them, and all his or their Damages, Costs, and Expenses by reason of such Execution, and shall apply the Proceeds of such Calls accordingly; and every Shareholder shall be liable to pay the Amount of every Call, in respect of the Shares held by him, to the Persons, and at the Times and Places, from Time to Time appointed by the Directors.

Interest on Calls unpaid.

XXXII. And be it enacted, That if, before or on the Day appointed for Payment, any Shareholder do not pay the Amount of any Call to which he may be liable, then such Shareholder shall be liable to pay Interest for the same at the yearly Rate of Five Pounds in the Hundred from the Day appointed for the Payment thereof to the Time of the actual Payment.

Enforcement of Calls by Action.

XXXIII. And be it enacted, That if at the Time appointed by the Directors for the Payment of any Call the Holder of any Share fail to pay the Amount of such Call, the Company may sue such Shareholder for the Amount thereof in any Court of Law or Equity having competent Jurisdiction, and may recover the same, with Interest, at the yearly Rate of Five Pounds in the Hundred from the Day on which such Call may have been payable.

Declaration in Action for Calls.

XXXIV. And be it enacted, That in any Action to be brought by the Company against any Shareholder to recover any Money due for any Call, it shall not be necessary to set forth the special Matter, but it shall be sufficient for the Company to declare that the Defendant is a Holder of One Share or more in the Company (stating the Number of Shares), and is indebted to the Company in the Sum of Money to which the Calls in arrear shall amount, in respect of One Call or more upon one share or more (stating the Number and Amount of each of such Calls), whereby an Action hath accrued to the Company by virtue of this Act.

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Matter to be proved in Action for Calls.

XXXV. And be it enacted, That on the Trial of such Action it shall not be necessary to prove the Appointment of the Directors who made such Call, or any other Matter, except that the Defendant at the Time of making such Call was a Holder of One Share or more in the Company, and that such Call was in fact made, and such Notice thereof given, as is directed by this Act; and thereupon the Company shall be entitled to recover what shall be due upon such Call, with Interest thereon.

Proof of Proprietorship.

XXXVI. And be it enacted, That the Production of the Register Book of Shareholders of the Company shall be Evidence of such Defendant being a Shareholder, and of the Number and Amount of his Shares.

Forfeiture of Shares for Nonpayment of Calls.

XXXVII. And be it enacted, That if the Holder of any Share fail to pay a Call payable by him in respect thereof, with the Interest, if any, that shall have accrued thereon, the Directors, at any Time after the Expiration of Six Calendar Months from the Day appointed for Payment of such Call, may declare such Share forfeited, and that whether the Company have sued for the Amount of such Call or not; but the Forfeiture of any such Share shall not relieve any Shareholder, his Executors or Administrators, from his and their Liability to pay the Calls made before such Forfeiture.

Notice of Forfeiture to be given before Declaration thereof.

XXXVIII. And be it enacted, That before declaring any Share forfeited the Directors shall cause Notice of such Intention to be left at the usual or last Place of Abode of the Person appearing by the Register Book of Shareholders to be the Proprietor of such Share; and if the Holder of any such Share be not within the United Kingdom, or if the Interest of any such Share shall be known by the Directors to have become transmitted otherwise than by Transfer, as herein-before mentioned, but a Declaration of such Transmission shall not have been registered as aforesaid, and so the Address of the Parties to whom the same may have been transmitted shall not be known to the Directors, the Directors shall give public Notice of such Intention in the *London Gazette*; and the several Notices aforesaid shall be given Twenty-one Days at least before the Directors shall make such Declaration of Forfeiture.

Forfeiture to be confirmed by a General Meeting.—Sale of forfeited Shares.

XXXIX. And be it enacted, That such Declaration of Forfeiture shall not take effect, so as to authorize the Sale or other Disposition of any Share, until such Declaration have been confirmed at some General Meeting of the Company, to be held after the Expiration of Two Calendar Months at the least from the Day on which such Notice of Intention to make such Declaration of Forfeiture shall have been given; and it shall

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be lawful for the Company to confirm such Forfeiture at any such Meeting, and by an Order at such Meeting, or at any subsequent General Meeting, to direct the Share so forfeited to be sold or otherwise disposed of; and after such Confirmation the Directors shall sell the forfeited Share, either by public Auction or private Contract, within Six Calendar Months next after the Confirmation of the Forfeiture, and if there be more than One such forfeited Share, then either separately or together, as to them shall seem fit; and any Shareholder may purchase any forfeited Share so sold.

Evidence as to Forfeiture of Shares.

XL. And be it enacted, That a Declaration in Writing by some credible Person not interested in the Matter, made before any Justice of the Peace, or before any Master or Master Extraordinary in the High Court of Chancery, that the Call in respect of a Share was made, and Notice thereof given, and that Default in Payment of the Call was made, and that the Forfeiture of the Share was declared and confirmed in manner herein-before required, shall be sufficient Evidence of the Facts therein stated; and such Declaration, and the Receipt of a Director or Manager of the Company for the Price of such Share, shall constitute a good Title to such Share, and thereupon such Purchaser shall be deemed the Holder of such Share discharged from all Calls made Prior to such Purchase; and a Certificate of Proprietorship shall be delivered to such Purchaser, and he shall not be bound to see to the Application of the Purchase Money, nor shall his Title to such Share be affected by any Irregularity in the Proceedings in reference to any such Sale.

No more Shares to be sold than sufficient for Payment of Calls.

XLI. And be it enacted, that the Company shall not sell or transfer more of the Shares of any such Defaulter than will be sufficient, as nearly as can be ascertained at the Time of such Sale, to pay the Arrears then due from such Defaulter on account of any Calls, together with Interest, and the Expenses attending such Sale and Declaration of Forfeiture; and if the Money produced by the Sale of any such forfeited Share be more than sufficient to pay all Arrears of Calls, and Interest thereon, due at the Time of such Sale, and the Expenses attending the Declaration of Forfeiture and Sale thereof, the Surplus shall, on Demand, be paid to the Defaulter.

On Payment of Calls, forfeited Shares to revert.

XLII. And be it enacted, That if Payment of such Arrears of Calls, and Interest and Expenses, be made before any Share so forfeited and vested in the Company shall have been sold, such Share shall revert to the Party to whom the same belonged before such Forfeiture, in such Manner as if such Calls had been duly paid.

Service of Notice on the Company.

XLIII. And be it enacted, That in all Cases wherein it may be necessary for any Person to serve any Notice, Writ, or other Proceeding at Law

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or in Equity, or otherwise, upon the Company, Service thereof respectively on the Manager or any Director for the Time being of the Company, by leaving the same at the principal Office of the Company, or, if the Company have suspended or discontinued Business, by serving the same personally on such Manager or Director, or by leaving the same with some Inmate at the usual or last Abode of such Manager or Director, shall be deemed good Service of the same on the Company.

Existing Companies may continue their Trades until Twelve Months after the passing of this Act.

XLIV. Provided always, and be it enacted, That every Company of more than Six Persons, for the Formation or Establishment of which Proceedings had been begun or taken before the Sixth day of *May* last, and which before the Fourth Day of *July* then next following, was registered at the Stamp Office, and on the Fourth Day of *July* actually carried on the said Trade or Business of Bankers in *England*, although under a Covenant or Agreement of Copartnership made or entered into on or after the Sixth Day of *May* last, may continue to carry on the said Trade or Business under any such Agreement or Covenant of Copartnership for any Time not exceeding Twelve Calendar Months next after the passing of this Act, in the same Manner in all respects as they legally might have done before the passing of this Act, and after the Expiration of the said Twelve Calendar Months, in case the Company shall not be incorporated under this Act, shall have, for the Purpose of closing their Trade or Businiess, but for no other Purpose, the same Powers and Privileges which they would have had if this Act had not been passed.

Existing Companies may be brought under this Act.

XLV. And be it enacted, That it shall be lawful for any Company of more than Six Persons carrying on the Trade or Business of Bankers in *England* before the said Sixth Day of *May*, or any Company which by the Provision herein-before in that Behalf contained is enabled to carry on the said Trade or Business of Bankers in *England* for a Time not exceeding Twelve Calendar Months next after the passing of this Act, to present a Petition to Her Majesty, praying that Her Majesty will be pleased to grant to them Letters Patent under this Act; and if, upon their Compliance with the Provisions herein-before contained with respect to Companies formed after the said Sixth Day of *May*, Her Majesty shall be pleased to grant to them Letters Patent under this Act as aforesaid, it shall be lawful for them thereafter to carry on their Trade and Business of Bankers as aforesaid according to this Act, and not otherwise: Provided always, that a Majority of the Directors of any such Company for the Time being, with the Consent of Three Fourths in Number and Value of the Shareholders present at a General Meeting of the Company, to be specially called for the Purpose, may resolve to make any Alterations in the Constitution of such Company, or otherwise, which may be deemed necessary or expedient for enabling such Company to come within the Provisions of this Act, and the Majority of the Directors of such Company may, in pursuance of the Resolution of such Meeting as aforesaid, execute a new Deed of Partnership on behalf of such Company, and it shall not be neces-

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sary for such Deed to be executed by any other Shareholder of such Company; and it shall thereupon be lawful for such Company to present such Petition as aforesaid, and a Copy of such Resolution and of such new Deed of Partnership so executed by a Majority of the Directors of the Company as aforesaid, shall be annexed to such Petition; and if Her Majesty shall thereupon grant Letters Patent to such Company under this Act, all the Shareholders of such Company at the Time of the Grant of such Letters Patent shall be deemed to be incorporated under such Letters Patent, and to be the first Shareholders in such incorporated Company; and the said new Deed of Partnership so executed by a Majority of the Directors as aforesaid shall have such and the same Effect, to all Intents and Purposes, as if it had been executed by all the Shareholders.

Agreements entered into with Companies after their Incorporation to be enforced as if made before Incorporation.

XLVI. And be it enacted, That notwithstanding the Incorporation of any Company under this Act, all Contracts and Agreements entered into by and with such Company shall continue in force as between such incorporated Company and the parties with which the Company entered into such Contracts and Agreements before the Incorporation thereof, and may be enforced in like Manner as if the Company had been incorporated before the making of any such Contract or Agreement, and that no Suit at Law or in Equity by or against such Company shall be abated by reason of such Incorporation; but on the Application of either of the Parties to such Suit to the Court in which such Suit is pending, at any Time before Execution on any Judgment in such Suit shall have issued, it shall be lawful for the Court to order that the Corporate Name of such Company be entered on the Record, instead of the Name of the Plaintiff or Defendant representing such Company before the Incorporation thereof, and thereupon such Suit may be prosecuted and defended in the same Manner as if the same had been originally instituted by or against the said incorporated Company; and where Execution on any Judgment in such Suit shall have issued before such Application, Execution of such Judgment may be had as if such Company were not incoporated as if this Act had not been passed.

Existing Companies to have the Powers of suing and being sued.

7 *G.* 4 *c.* 46.

XLVII. And be it enacted, That after the passing of this Act every Company of more than Six Persons established on the said Sixth Day of *May* for the Purpose of carrying on the said Trade or Business of Bankers within the Distance of Sixty-five Miles from *London*, and not within the Provisions of this Act, shall have the same Powers and Privileges of suing and being sued in the Name of any one of the Public Offices of such Copartnership as the nominal Plaintiff, Petitioner, or Defendant, on behalf of such Copartnership; and that all Judgments, Decrees, and Orders made and obtained in any such Suit, may be enforced in like Manner as is provided with respect to such Companies carrying on the said Trade or Business at any Place in *England* exceeding the Distance of Sixty-five Miles from *London* under the Provisions of an Act passed in the Seventh Year of the Reign of King *George* the Fourth, intituled *An Act for the better regulating Copartnerships of certain Bankers in* England, *and for amending so much of an Act of the Thirty-ninth and*

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Fortieth Years of the Reign of His late Majesty King George *the Third, intituled* '*An Act for establishing an Agreement with the Governor and* '*Company of the Bank of* England, *for advancing the sum of Three* '*Millions towards the Supply for the Service of the Year One thousand* '*eight hundred,*' *as relates to the same;* provided that such first-mentioned Company shall make out and deliver from Time to Time to the Commissioners of Stamps and Taxes the several Accounts or Returns required by the last-mentioned Act; and all the Provisions of the last-recited Act as to such Accounts or Returns shall be taken to apply to the Accounts or Returns so made out and delivered by such first-mentioned Companies, as if they had been originally included in the Provisions of the last-recited Act.

Banking Companies to be deemed Trading Companies.

XLVIII. And be it declared and enacted, That every Company of more than Six Persons carrying on the Trade or Business of Bankers in *England* shall be deemed a Trading Company within the Provisions of an Act passed in this Session of Parliament, intituled, *An Act for facilitating the winding up the Affairs of Joint Stock Companies unable to meet their pecuniary Engagements.*

Interpretation of Act.

XLIX. And be it enacted, That in this Act the following Words and Expressions shall have the several Meanings hereby assigned to them, unless there be something in the Subject or Context repugnant to such Construction; (that is to say,)

Words importing the Singular Number shall include the Plural Number, and Words importing the Plural Number shall include the Singular Number:

Words importing the Masculine Gender shall include Females:

The Word "Plaintiff" shall include Pursuer and Petitioner:

The Word "Defendant" shall include Defender and Respondent:

The Word "Execution" shall include Diligence or other Proceeding proper for giving Effect to any Judgment, Decree, or Order of a Court of Justice.

Act may be Amended.

L. And be it enacted, that this Act may be amended or repealed by any Act to be passed in this Session of Parliament.

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SCHEDULES referred to by the foregoing Act.

SCHEDULE (A.)

MEMORIAL or Account to be entered at the Stamp Office in London in pursuance of an Act passed in the Eighth Year of the Reign of Queen Victoria, intituled [*here insert the Title of this Act*]; viz.

Firm or name of the Banking Company; viz. [*set forth the Firm or Name.*]

Names and Places of Abode of all the Members of the Company; viz. [*set forth all the Names and Places of Abode*].

Names and Places of the Bank or Banks established by such Company; viz. [*set forth all the Names and Places.*]

Names and Places of Abode of the Directors, Managers, and other like Officers of the said Banking Company; viz: [*set forth all the Names and Places of Abode.*]

Names of the several Towns and Places where the Business of the said Company is to be carried on; viz. [*set forth the names of all the Towns and Places*].

A. B. of Manager [*or other Officer, describing the Office,*] of the above-mentioned Company, maketh Oath and saith, That the above-written Account doth contain the Name, Style, and Firm of the said Company, and the Names and Places of the Abode of the several Members thereof, and of the Banks established by the said Company, and the Names, Titles, and Descriptions of the Directors, Managers, and other like Officers of the said Company, and the Names of the Towns and Places where the Business of the Company is carried on, as the same respectively appear in the Books of the said Company, and to the best of the Information, Knowledge, and Belief of this Deponent.

Sworn before me, the day of
at in the County of
C. D., Justice of the Peace in and for the County
of [*or* Master *or* Master Extraordinary in Chancery].

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SCHEDULE (B.)

MEMORIAL or Account to be entered at the Stamp Office in London on behalf of [*Name of the Company*], in pursuance of an Act passed in the Eighth Year of the Reign of Queen Victoria, intituled [*insert the Title of this Act*]; viz.

Names and Places of Abode of every new or additional Director, Manager, or other like Officer of the said Company; viz. *A.B.*, in the Room of *C.D.*, deceased *or* removed [*as the Case may be;*] [*set forth every Name and Place of Abode.*]

Names and Places of Abode of every Person who has ceased to be a Member of such Company; viz. [*set forth every Name and Place of Abode.*]

Names and Places of Abode of every Person who has become a new Member of such Company; viz. [*set forth every Name and Place of Abode.*]

Names of any additional Towns or Places where the Business of the Company is carried on; viz. [*set forth the Names of all the Towns and Places.*]

A.B. of Manager [*or other Officer*] of the above-named Company, maketh Oath and saith, That the above-written Account doth contain the Name and Place of Abode of every Person who hath become or been appointed a Director, Manager, or other like Officer of the above Company, and also the Name and Place of Abode of any and every Person who hath ceased to be a Member of the said Company, and of every Person who hath become a Member of the said Company since the Registry of the said Company on the Day of last, as the same respectively appear on the Books of the said Company, and to the best of the Information, Knowledge, and Belief of this Deponent.

Sworn before me, the Day of at in the County

C.D., Justice of the Peace in and for the County of [*or* Master *or* Master Extraordinary in Chancery].

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SCHEDULE (C.)

Form of Transfer of Shares.

I of in consideration of the Sum of paid to me by of do hereby transfer to the said Share [*or* Shares], numbered in the Business called "The Banking Company," to hold unto the said his Executors, Administrators, and Assigns [*or* Successors and Assigns], subject to the several Conditions on which I held the same at the Time of the Execution hereof. And I the said do hereby agree to take the said Share [*or* Shares], subject to the same Conditions. As witness our Hands and Seals, the Day of

THE END.

LONDON:
KING, QUEEN-STREET, NEW CANNON-STREET.

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